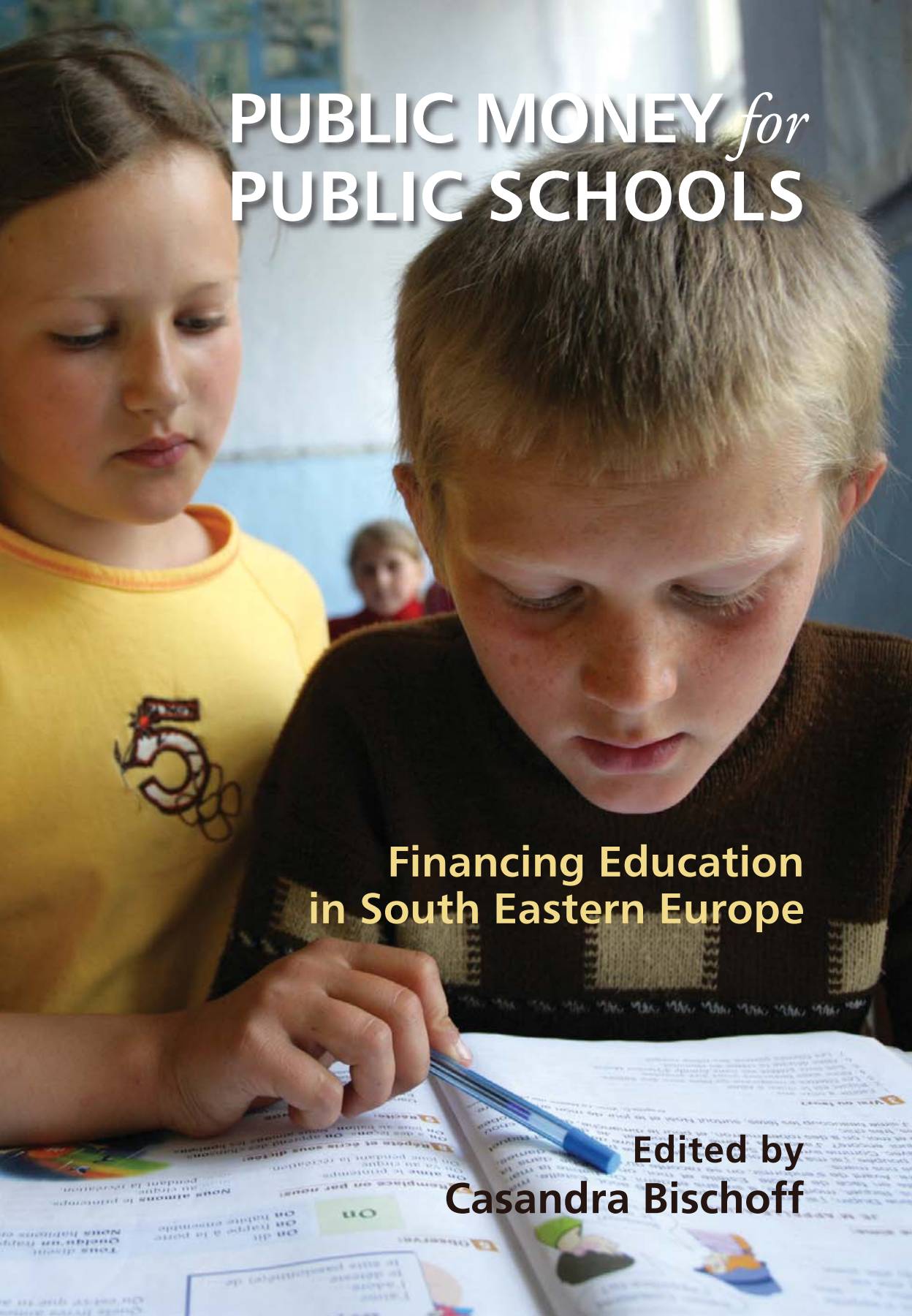


PUBLIC MONEY *for* PUBLIC SCHOOLS

Financing Education in South Eastern Europe

Edited by
Casandra Bischoff

Public Money for Public Schools

Financing Education in South Eastern Europe

Edited by

Casandra Bischoff

Local Government
and Public Service
Reform Initiative

Local Government and Public Service Reform Initiative
Open Society Institute–Budapest

Address
Október 6. utca 12
H–1051 Budapest, Hungary

Mailing address
P.O. Box 519
H-1357 Budapest, Hungary

Telephone
(36-1) 327-3104

Fax
(36-1) 327-3105

E-mail
lgprog@osi.hu

Web Site
http://lgi.osi.hu/

First published in 2009
by the Local Government and Public Service Reform Initiative, Open Society Institute–Budapest
© OSI/LGI, 2009

TM and Copyright © 2009 Open Society Institute
All rights reserved.

ISBN: 978-963-9719-13-2

OPEN SOCIETY INSTITUTE

The opinions expressed herein do not necessarily reflect the views of OSI/LGI but of the authors.
All rights reserved. No part of this book may be reprinted or reproduced or utilized in any form or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Copies of the book can be ordered by e-mail or post from LGI.
Managing editor: Tom Bass
Cover photo: © Panos | Giacomo Pirozzi
Printed in Budapest, Hungary, 2009
Design & Layout: Judit Kovács | Createch Ltd.

Contents

Foreword v
List of Contributors vii
List of Boxes, Figures, and Tables xi

INTRODUCTION

Financing Systems for Better Schools
Casandra Bischoff 1

CHAPTER 1

Financing Education in Albania
Sherefedin Shehu 21

CHAPTER 2

Financing Public Education in Bulgaria
Plamen Danchev and *Stefan Ivanov* 49

CHAPTER 3

Financing Education in Croatia
Ivana Batarelo, Željka Podrug, and *Tome Apostoloski* 79

CHAPTER 4

The First Careful Step:
Education Decentralization and Finance in the Republic of Macedonia
Jan Herczyński, Jasna Vidanovska, and *Nuri Lacka* 103

CHAPTER 5

Financing Education in Moldova
Veaceslav Ionita 149

CHAPTER 6

Financing Education in Romania: A Legacy of Incomplete Reforms
Casandra Bischoff and *Jan Herczyński* 173

Index 221

Foreword

The idea of the present publication dates back to 2005, when the Local Government and Public Service Reform Initiative (LGI), a program of the Open Society Institute, organized a regional South Eastern European policy forum on financing education under its Fiscal Decentralization Initiative (FDI). LGI has since commissioned papers by regional experts on education financing to provide officials responsible for local government finance reform with comparative information about the state of reform in the region and expert knowledge about policy options that were considered or implemented elsewhere.

As these studies demonstrate, each country in the region has walked its own way when it came to deciding to what extent and how to decentralize management and financing of public education. There are no set rules and frameworks for such policies, rather one common direction: finding a fiscal and management arrangement that ensures that good quality education is equally available and provided efficiently.

Guiding the direction of such policy reform requires the expertise, mobilization, and good will of governments, policymakers, and education professionals, and bringing all of them together to reach consensus, coordinate, and contribute to the reform process are not simple tasks. This volume presents the thinking and the paths chosen by five South Eastern European countries (and a comparison to Poland) in order to disentangle the knot of how to make the most of the education systems in the region. The studies may not necessarily present the best solutions, but they do open the door to stages where genuine efforts were invested in providing a level of quality and satisfaction.

I would like to extend my gratefulness to all the authors, who despite their preoccupations with governance and other important matters, dedicated their time and effort to this volume and for their patience to make it happen after so much time elapsed: Sherefedin Shehu (Albania); Plamen Danchev and Stefan Ivanov (Bulgaria); Ivana Batarelo, Zeljka Podrug, and Tome Apostoloski (Croatia); Jan Herczynski, Jasna Vidanovska, and Nuri Lacka (Macedonia); Veaceslav Ionita (Moldova); and Casandra Bischoff and Jan Herczynski (Romania). Special thanks to Jan Herczynski for the consistent and valuable advice and comments on the general trends in education in the region. I would like to thank Casandra Bischoff, who shaped the conclusions and the major findings

into fruition and despite her new commitments at the moment, dedicated her time to this noble work. Thanks also to Ondrej Simek and Tímea Tóth who made this policy forum happen four years ago. And finally thanks to Tom Bass whose meticulous edits have made reading the studies a pleasure.

Irina Faion
Senior Program Manager
Local Government and Public Service Initiative
Open Society Institute–Budapest

Október 6. utca 12
H–1051 Budapest, Hungary

Phone: (+36 1) 327 3104 / ext. 2078
Fax: (+36 1) 327 3105

List of Contributors

Tome Apostoloski is a head at the Expenses Department for Employed Budgetary Users, at the Ministry of Science, Education, and Sports in Croatia. He holds a B.A. in Economics from University of Zagreb, Croatia.

Ivana Batarelo is an Assistant Professor of Education at the Faculty of Humanities and Social Sciences, University of Zagreb, Croatia, where she teaches courses in Adult Education, School Administration and Management, Information Systems in Education, and Online Education. Her main research interests include educational financing, instructional design, educational technology, and teacher education. She holds a Ph.D. in Curriculum and Instruction from Arizona State University.

Casandra Bischoff is is an independent consultant with experience in the design and implementation of policies in the area of public administration reform (good governance, administrative and fiscal decentralization, institutional development, civil service reform, unitary-pay reform, public expenditure review, and fiscal administration). She has worked with development organizations such as the World Bank, UNDP, DFID, and USAID, and assisted the ministries of administration, education, and labor in Romania. She also has extensive experience in policy research and has produced policy papers for institutions such as the Woodrow Wilson Center for International Scholars, Open Society Institute, and the Center for Policy Studies in Budapest, the Center for International Development at Harvard University, the World Bank, and USAID. Since the writing of this book, she has changed course and is currently a life and business coach holding personal development workshops.

Plamen Danchev is a public finance analyst with 10 years of experience in education finance and fiscal and sector decentralization. He currently works in Bulgaria for Effective Solutions Consulting Group, Ltd. He has been involved in the development of policy options for education management and finance decentralization in Bulgaria and has been active in promoting and expanding the application of the delegated school budget system in Bulgarian municipalities. He advocates for the introduction of school-based management principles in financing and management of schools in Bulgaria as a vehicle for improving education quality, effectiveness, and efficiency.

Jan Herczyński is employed at Interdisciplinary Centre for Mathematical and Computational Modelling ICM, Warsaw University, Poland. He has a decade of experience in education finance, in education policy, and in the formulation and analysis of education strategy. Between 1999 and 2000 he advised the Polish Ministry of National Education on education finance and decentralization. Between 2002 and 2007, under USAID-funded projects in Skopje, he advised the Macedonian Ministry of Education and Science on education decentralization and finance. In both countries he helped prepare and implement per-student allocation formulas to local governments. *Jan Herczyński* has been a consultant and has written over 50 reports on education finance, strategy, and management in transition countries, including Albania, Bulgaria, Georgia, Kosovo, Kyrgyzstan, Macedonia, Moldova, Lithuania, Poland, Romania, Serbia, and Ukraine. Prior to his career in education finance, he worked for 17 years as a lecturer and researcher in applied mathematics at Warsaw University, worked in IT quality assurance and strategic planning in a major Polish commercial bank, and conducted trainings and analysis in the field of industrial safety. *Jan Herczyński* holds a Ph.D. in Mathematics. Please see online: *http://www.esep.pl*.

Veaceslav Ionita is an Associate Professor at the Academy of Economic Studies of Moldova. He has developed curriculum and programs for the Management of Public Administration Department, and since 1997 he has developed and delivered trainings and courses in regional policy, local public finance, and decision-making mechanisms in public management. *Veaceslav Ionita* has been an expert in public finance, macroeconomic forecasts, and municipal development at the Institute for Development and Social Initiatives IDIS "Viitorul" for the decade. He is a member of the Special Parliament Commission for Local Public Administration Reforms, a member of the Council of Experts to the Supreme Court of Justice, and a representative of IDIS to the Economic Policy Institutes Network. He has published numerous articles on knowledge management, unofficial taxation, and fiscal decentralization in South Eastern Europe, as well as quarterly inputs into the IDIS Economic State Watch on Macroeconomic Forecasts in Moldova.

Stefan Ivanov works for Club Economica 2000 and is a senior research associate at the Institute of Economics at the Bulgarian Academy of Science. His fields of expertise include local finance, intergovernmental transfers, education financing, and fiscal decentralization. He also is a consultant at the National Association of Municipalities in Bulgaria and a member of an inter-institutional group for the development of financing standards and educational facilities. Most recently, he has contributed to a number of domestic projects to develop and implement the delegated budget system in Bulgarian schools.

Nuri Lacka was a member of the Analytical Unit, the sector of the Macedonian Ministry of Education and Science responsible for the review and analysis of education data in Macedonia, as well as for aggregating the available data in electronic form and supplying all sectors of the Macedonian Ministry of Education and Science.

Željka Podrug is a head of the Decentralized Function Department and Financially Surveillance of National Budget Users, at the Ministry of Science, Education, and Sports. She holds a B. A. in Economics from University of Zagreb, Croatia.

Sherefedin Shehu is a budget and finance specialist with thirty years of professional experience. At present, he is working for the Ministry of Finance of Albania as Deputy Minister. He has held key positions in the ministry and his contribution is broadly acknowledged in many areas. He has established and managed the National Treasury System and is involved in drafting and implementation of the budget reform, the establishment of a modern public expenditure and debt management system, planning the economy growth, budget expenditures, revenues and investment programs, development of medium-term budgetary program, negotiation of development loan agreements and public sector restructuring and privatization. He has chaired the committee for restructuring and led the privatization of the three state-owned banks, and has established the Bank Assets Resolution Trust. Prior to re-joining the ministry, he worked with USAID projects in Albania and Serbia, the Fiscal Decentralization Initiative for Central and Eastern Europe (OSI/LGI), and the World Bank Institute.

Sherefedin Shehu holds a Doctorate Degree in Financial Management and used to be a professor of public finance, financial management and taxation, and Finance Department Head at the College of Economics of Tirana University. In 2003 he graduated *cum laude* from the Department of Accounting at Parkland College, Champaign, USA. He has conducted a Fellowship on Public Expenditure and Budget Management at Glasgow Caledonian University and acquired qualifications abroad on financial management, and macroeconomic and fiscal policy. He has presented papers at national and international conferences and written a number of books, articles, guides, and manuals. In 1998, Barons awarded him a certificate of excellence in *Who's Who in Global Banking and Finance.*

Jasna Vidanovska was a member of the Analytical Unit, the sector of the Macedonian Ministry of Education and Science responsible for the review and analysis of education data in Macedonia, as well as for aggregating the available data in electronic form and supplying all sectors of the Macedonian Ministry of Education and Science.

List of Boxes, Figures, and Tables

INTRODUCTION

Financing Systems for Better Schools
Casandra Bischoff

Figure 1.	Education as Percent of GDP	12
Table 1.	Student–teacher Ratios	17

CHAPTER 1

Financing Education in Albania
Sherefedin Shehu

Table 1.	Student Enrollment in General and Vocational Secondary Education	26
Table 2.	Public Education: Changes in Student, Teacher, and School Numbers, 2001–2004 by Percent	27
Table 3.	Student Numbers in Private Schools and Growth Rates	27
Table 4.	Share of Pre-primary, Primary, and Secondary Education to GDP (in millions of ALL)	30
Table 5.	Pre-university Education as a Percent of Public Spending	31
Table 6.	Spending per Student in 2003	31
Table 7.	Financing Sources in Pre-university Education (Percent)	32
Table 8.	Structure of Total Education Expenditures by Budget Categories (ALL and Percent of Each Item of Total Expenditures/Year)	32
Table 9.	Structure of Education Expenditures by Budget Categories: Pre-Primary and Primary Education	33
Table 10.	Structure of Education Expenditures by Budget Categories: Secondary (General)	33
Table 11.	Structure of Education Expenditures by Budget Categories: Secondary (Vocational)	33
Table 12.	Structure of Education Expenditures by Budget Categories: Training	33
Table 13.	Private Education, Changes in Student, Teacher, and School Numbers, 2001–2004	38
Table 14.	Student–teacher Ratios	42

Table A1.1 Indicators of Spending per Student and Teachers Salaries 48
Table A1.2 Share of the Secondary Education Enrollments to Graduates from Primary Education (Percent) 48
Table A1.3 Class Size in 2003–2004 (Student/Classes) 48

CHAPTER 2

Financing Public Education in Bulgaria
Plamen Danchev and Stefan Ivanov

Table 1. Number of Public General Education Schools, Students and Teachers 56
Table 2. Public General Education Schools by Type 57
Table 3. Number of Public Special Schools, Students, and Teachers 57
Table 4. Students in Public General Education Schools 58
Table 5. Average Number of Students per Teacher across Stages of Education 58
Table 6. Number of Public Vocational Schools, Students, and Teachers 59
Table 7. Main Financial Characteristics of Education in Bulgaria 64
Table 8. Trends in Net Enrollment Rates in School Education 70
Table 9. Changes in the Average Grades of Students after DBS (Percent) 73
Table 10. Changes in Children's Success in Admission Tests (Percent) 74

Table A1.1. Structure of Education Expenditures of Local Authorities: 2003 vs. 2006 78
Table A1.2. Comparison of Gross Annual Remuneration of Teachers to per Capita GDP 78

CHAPTER 3

Financing Education in Croatia
Ivana Batarelo, Željka Podrug, and *Tome Apostoloski*

Table 1. Average Teaching Salaries in Relation to per Capita GDP 86
Table 2. Expenditure on Preschool, Primary, Secondary, and Vocational Education as a Percent of GDP and Public Expenditure 88
Table 3. Percent Division of Education Expenditures from Central Budget (Split between Types of Cost) 89

Table 4. Percent Division of Education Expenditures of Decentralized Expenditures for Primary and Secondary Schools (Split between Types of Cost) 90
Table 5. Percent Contributions of National and Local Government to Education Expenditure (HRK Thousands) 90
Table 6. Croatian Education Budget for 2007 92
Table 7. Preschool Education Investments from the Central Budget 2001–2006 (HRK Thousands) 93
Table 8. Trends in Student Numbers and their Relationship to Numbers of Teachers, Schools 95

CHAPTER 4

The First Careful Step: Education Decentralization and Finance in the Republic of Macedonia
Jan Herczyński, Jasna Vidanovska, and *Nuri Lacka*

Figure 1. Allocation of the Education Budget 113

Table 1. Indicators for Primary Education 110
Table 2. The Evolution of the Student–teacher Ratio (Primary and Secondary Education) 111
Table 3. Secondary Education Finance 112
Table 4. Education Expenditures as Percent of State Budget (2003) 112
Table 5. Education Expenditures as Percent of GDP (2003) 112
Table 6. Share of Primary and Secondary Education in the Total Budget for Education (2003) 113
Table 7. Structure of Expenditure in Primary and Secondary Education by Sources (2003) 114
Table 8. Structure of Expenditures by Budget Categories, Primary Education (1998–2003) 114
Table 9. Structure of Expenditures by Budget Categories, Secondary Education (1998–2003) 115
Table 10. Employment Norms for Primary Schools 116
Table 11. Coefficient for Employee Education Level (Primary and Secondary Schools) 117
Table 12. Student Standard Budget 2003 (Percent) 119
Table 13. Students by Grade (Primary) 121
Table 14. Number of Students in Schools with Albanian-language Teaching 121

Table 15. Number of Students in Schools with Macedonian-language Teaching 122
Table 16. Dropout Rates in Albanian-language Schools 123
Table 17. Average Dropout Rate (Separate School Years, Primary Education) 123
Table 18. Dropout Rates in Macedonian-language Schools 124
Table 19. Average Dropout Rate (Separate School Years, Primary Education) 124
Table 20. Student Numbers in Secondary Schools 124
Table 21. Basic Data on Primary Schools by Type of Municipality 126
Table 22. Class Sizes and Expenditures per Student by Type of Municipality, 2003 127
Table 23. Utilities and Maintenance Costs per Student, 2003 128
Table 24. Number and Type of Grants in Education 139
Table 25. Allocation Formula for Primary Education 141
Table 26. Allocation Formula for Secondary Education 142

CHAPTER 5

Education Financing in Moldova
Veaceslav Ionita

Figure 1. Structure of the Education System in Moldova 154

Table 1. School Network Development 156
Table 2. Preschool, Primary, Secondary, and Vocational Education Expenditures as a Percent of GDP and Public Expenditure (MDL million) 159
Table 3. Districts and Average Number of Students per Class 162

Table A1.1. Delimitation of Jurisdiction among Administration Levels (Proposal for Reform) 168
Table A3.1. Division of Education Expenditure between Types of Cost (Teaching Salaries, etc.) 171
Table A4.1. Percent Division of Education Expenditure between Types of Cost (Teaching Salaries, etc.) 172
Table A5.1. Average Teaching Salaries in Relation to per Capita GDP 172

CHAPTER 6

Financing Education in Romania: A Legacy of Incomplete Reforms
Casandra Bischoff and *Jan Herczyński*

Table 1.	Distribution of Personal Income Tax at the Local Level	183
Table 2.	Education Expenditure in Central Europe as Percent of GDP (1989–2000)	196
Table 3.	Percent of Public Spending for Education	197
Table 4.	Student–teacher Ratio for Primary Schools and Gymnasiums	198
Table 5.	Simulated Student–teacher Ratios by Level of Education	199
Table 6.	Class Size in Central Europe	199
Table 7.	Class Size among Schools	200
Table 8.	Spending per Student among Schools (RON)	200
Table 9.	Non-personnel Spending per Student among Schools (RON)	201
Table A1.1.	Students by County and by Education Level	210
Table A1.2.	Class Size by County and by Education Level	212
Table A1.3.	Personnel Spending per Student by County and by Education Level	214
Table A4.1	Personnel Spending per Class by County and by Education Level	216
Table A5.1	Non-Personnel Spending per Student by County and by Education Level	218

Financing Systems for Better Schools

Casandra Bischoff

Both centralized and decentralized systems can be good engines to deliver education, as both the experiences of France—at one end of the decentralization spectrum—and New Zealand—at the other—attest.

Today, however, the vast majority of countries—and the ones we study in our report—use shared responsibilities among the various levels of government. Even in traditionally centralized countries like France, budget decisions have been recently devolved to a certain extent. On the other hand, in the United States higher levels of government are now assuming new responsibilities in financing education.

What seems to be important, therefore, is not deciding between decentralization versus centralization. The more important question is what kind of financing system can effectively attract the resources of the state, civil society, and the private sector to achieve national educational goals? What kind of financing arrangement for primary and secondary education has a positive impact on quality, effectiveness, and efficiency in education?

The report will examine the financing choices of six countries:

- *Albania*, where the central government has retained most of the responsibilities in education, while recently delegating some functions in expenditure management, such as maintenance, to the municipalities.
- *Bulgaria*, where a delegated budget system (DBS) has been implemented in more than 30 municipalities so far.
- *Croatia*, where the education system for the most part is still centralized in terms of management and human resources of schools but where the decentralization of resource allocation has begun.
- *Macedonia*, which distinguishes itself as a champion in education reform in South Eastern Europe and is now ready to implement the second phase of education decentralization.
- *Moldova*, with complete centralization for all policy competencies, from the determination of policy standards in education to the execution of policy.
- *Romania*, where efforts to decentralize the education sector began as early as 1995, but where results of this sinuous reform process are still hard to measure.

The first section of this summary looks briefly at the institutional framework of each country, both the school management and financial arrangements The second section will assess the impact of these arrangements on the quality, effectiveness, and efficiency of the education system and will draw some conclusions.

INSTITUTIONAL FRAMEWORKS

Several external factors—such as a consistent decline in the school population, changing demands in labor markets, volatile economic growth, and consequently an increase in the consumption of private education—seem to be at work in all the countries of our study. Other internal factors, such as a political environment conducive or constraining to reform, are important when considering whether to keep or to hand over the control of certain education functions.

School Management

Albania

The main education functions stay with the central government, which enjoys hegemony in the education sector through two layers of deconcentrated offices, at the regional and district level. These units decide on the school network, number of teachers, and also have the power to hire or dismiss school directors, teachers, and other non-teaching staff. In terms of teacher salaries, local governments are paymasters and can hire security personnel who they pay from the local budget.

The only fully decentralized function is maintenance. Municipalities are now given ownership over school buildings—although the plots where the buildings are located still belong to the central government.

The Albanian government has given a lot of attention to decentralization policy in education. Notably, in 2004 the government issued a policy paper on education decentralization, which unfortunately was not followed up with clear changes in legislation. A pilot project was implemented in Tirana and tested the decentralization of extended budget execution powers. As a result of this pilot project, extended powers in the budget execution were transferred to municipalities. The results remain inconclusive though.

Bulgaria

In 2006 the government empowered the school councils in 10 pilot municipalities. The councils include a representative of the regional inspectorate, one of the municipal administration, two representatives of the pedagogical staff of the school, and two parent representatives. The council is responsible for evaluation of the performance of the school director; proposes the dismissal or appointment of the school director; and the proposal must be endorsed by the regional inspectorate. School councils are envisaged to be extended as a mandatory structure in all schools in Bulgaria in 2009.

In the rest of the schools across the country the central government retains the major competencies such as hiring and dismissal of directors through the ministry and its deconcentrated units, the regional inspectorates. The director of the school can hire or fire teachers and non-teaching staff. However, the number of teachers and non-teaching staff is decided by the center.

The same cannot be said about staffing, class sizes, salaries, and other operational education expenditure regulations, which have been relaxed starting in 2008. They are now mostly recommendations. This has had a positive impact on the powers of directors, who now can determine the number of staff, specific salaries, or individual teaching hours of their teachers. Moreover, the director now can decide what portion of the school budget will go for maintenance and for labor costs.

The recommendation to open or close a school is made by the funding authority (local government for the municipal schools) and submitted to the regional education inspectorates. The latter checks the circumstances, prepares an opinion, and the recommendation is submitted to a committee appointed by the Minister for Education and Science. The committee, composed of representatives of the ministry, considers the recommendations, examines the attached documents, and prepares a recommendation to open or close a school that the minister then approves in an order.

The maintenance of school buildings and the current operating expenses are covered by the owner, i.e., the respective ministry for the state schools and the municipality for the municipal ones.

Croatia

Croatia started the process of decentralization of primary and secondary education in 2001, when the central government transferred the responsibility for financing education, healthcare, welfare, and fire departments to local governments. The main principles underlying the decentralization of financing was the transfer of founding rights. School founders are commonly larger municipalities.

In the municipalities that were given new responsibilities, the school council selects the school director. The school council has a fairly balanced composition, with four school representatives and three representatives of a local government unit. The ministry does not have any influence over the hiring or dismissal of the director. However, the ministry is currently contemplating the idea to change the composition of the school's councils in such a way as to have a final say in the appointment of the directors.

The school council also elects the teachers and administrative personnel, subsequent to competition. Salaries are calculated on the basis of coefficients regulated by the central government.

The establishment and closure of schools are regulated at the level of the town for primary schools or the municipal level for primary and secondary schools. The same legal regulations determine class size, namely 30 students (plus/minus two). Teaching plans and programs are determined on the central level.

Macedonia

A fully centralized system before 2001, Macedonia undertook the devolution of significant powers to municipalities in many sectors of public life, including education. Decentralization of education was implemented in two phases. In Phase 1, the center transferred limited responsibilities—such as maintenance, repairs, and material expenditures. Salaries were excluded.

The changes also included an important redesign of the school board, which now has the authority to select and dismiss the school director, to set the school budget, and to adopt the school statute. The new system also foresees the introduction of a system of licensing of school directors.

Phase 2, planned for the period 2007–2009, includes the transfer of further functions to those municipalities that fulfill certain conditions specified in the Law on Local Government Finance or LLGF. Starting in September 2007, around 50 municipalities entered the second phase of decentralization.

Moldova

A snapshot of the Moldovan system reveals an almost complete centralization of all competencies, from the determination of policy standards in education to the execution of policy. Local governments can only submit proposals for the opening, reorganization, and closing of schools. Further, the boards of education at the *raion* level analyze the documents and submit a proposed decision for approval to the Ministry of Education. Wages and social and medical insurance expenditures for education personnel are the responsibility of the deconcentrated departments of the Ministry of Education, at the level of the *raion*.

The ministry is in charge of the overall management of the school, from the organizational chart to the selection of school directors and teachers. The director of the school can hire additional teachers if needed, but only with the approval of the *raion*. Inspection and monitoring of school performances and finances are ensured by the deconcentrated offices of the Ministry of Education.

Local governments are responsible for the maintenance of schools, while capital works are the responsibility of the central government.

In 2002, the government transferred new powers and tasks to the *raions* and local governments, but it failed to provide the necessary financing. An example of an unfunded

mandate would be housing for young teachers who settle in the rural areas. The Ministry of Education ensures the payment of their salaries. Obviously, since most local government revenues were not high enough to cover this additional expenditure, the law was implemented starting in 2006, when the government allocated around EUR 600 per academic year for each young teacher.[1]

Romania

Romania is a country whose policy efforts in education would be best described as stop-and-go reforms. Unfortunately, the impetus for reform by various education ministers has often ended as a result of political power struggles. Alternatively, as soon as external pressures for reform—such as integration into the European Union in 2007—are discontinued, education seems to fall off the reform agenda.

Attempts to reform education in 2001 were prioritized one more time in 2004, when the primary and secondary legislation was brought in line with what was intended to be decentralization to schools. The director of the school became the chairman of the administration council, the power of the administrative council was strengthened, while the role of the school director was changed from that of a teacher to that of a manager held accountable through a managerial contract signed with the inspectorate. School budgets with revenue and expenditure sides were introduced.

However, the new framework summarized above was implemented in only eight pilot counties until now. In the rest of the schools across the country the inspectorates still have significant powers. They nominate the teachers and set up public education units such as kindergartens, primary schools, middle schools, and vocational and apprenticeship schools. The director of the school signs his/her contract with the inspectorate, not with the local government, so the relationship between the school and the local community is considerably weakened. Furthermore, the administration council has only a consultative and advisory role.

Financial Arrangements

Albania

Financing for primary and secondary education remains highly centralized, provided mainly by the central government. Local governments are responsible for the financing of basic school maintenance. This includes heating, electricity, telecommunications (telephones, Internet connections), water, waste disposal, cleaning materials, small repairs (windows, drains, etc.), and painting. They do make a small contribution to

salaries, but only for the guards hired in schools. Since their own revenues are insufficient to finance this function, local governments use part of a general grant allocated on the basis of a formula. But the issue of underfunding remains.[2] Experience shows that local governments spend only around 16 percent of the general grant on education (or, excluding Tirana, only 12 percent). As a proportion of the total education budget, this is far below the average OECD level of over 19 percent.

The remaining responsibilities are delegated and receive almost 100-percent financing each year through the annual state budget law. Furniture, didactic materials, and student transportation are financed by the regional units of the ministry (Regional Directorates of Education or RDE). Similarly, the salaries for the staff employed in schools are financed entirely by the central government. These are calculated by the Ministry of Education based on actual employment levels in schools and on average salaries (by education level) for each municipality. The amounts allocated for salaries are then sent to municipalities, which pay the school staff. Since 2006 the state has reimbursed 70 percent of the costs of textbooks for all primary education.[3]

Bulgaria

Prior to 2002, schools were financed through general budget revenues. Municipalities raised limited own revenues and received from the state shared taxes by origin and general subsidies. Like in many other countries in the region, the unclear division of responsibilities between central and local government in public service provision created some disincentives for efficient and effective financial management.

In 2003, as a result of a serious decentralization reform, municipalities were delegated education functions. The expenditures for activities delegated by the state are based on two different standards (for maintenance and staff salaries) and were generally funded from personal income tax receipts. In 2007, the previous expenditure standards were "unified" and converted to a single costing standard per student (quasi-voucher system implementing the principle "money follows the student"). The design of the new costing standard stimulates the financing authority (ministries and the local governments) to adopt their own pattern for the allocation of funds across schools.

In addition to the funds defined through the costing standard, in the course of each year the municipalities receive subsidies from the Ministry of Finance for additional remuneration of teachers, subsidies to compensate costs incurred by the municipalities (such as transportation), subsidies for capital investments from the Ministry of Education and Science, and free textbooks for first-grade pupils.

In addition, Bulgaria introduced a pilot delegated budget system for secondary education in 1994. The state gave the school authorities the right to make independent decisions about administrative, organizational, and financial aspects, and they were held

accountable for the results of these decisions. The powers and responsibilities of municipalities shifted from direct management of schools to coordination, methodological assistance, training, and supervision. Schools became secondary budget holders and are now able to compile their own budgets and have their own bank accounts. Schools have also the authority to manage property such as canteens, land, and vacant premises, and to raise additional revenues.

The delegated school budget system has been expanded nationally in 2008, thus further increasing the financial and management autonomy of schools.

Croatia

Croatia transferred the responsibility for financing a part of the primary and secondary education functions to local governments that have sufficient fiscal capacity to do so. In municipalities with less revenues, the upper administrative level takes over the responsibility to finance the decentralized competencies. However, many smaller local governments have expressed an interest in being given further financing rights.

Each year the government and the Ministry of Finance set minimum financial standards or the cost of a certain function in cooperation with the ministry. In defining minimum standards the ministry takes into consideration the expenditure needs of local governments. The needs estimation uses the number of enrolled pupils in a certain year multiplied by the average annual cost per pupil.

The central government fully covers salaries and partially covers maintenance. For the functions that were transferred (transportation, remainder of maintenance), local governments can use two sources for financing. One is a share of the income tax. The difference between additional income taxes collected locally in towns and municipalities and the approved minimal standard is received from an equalization fund, the level of which is decided in the budget law each year.

Macedonia

The main source of education financing is the state budget (95 percent in primary education and 80 percent in secondary education). Extrabudgetary resources are used to compensate for a very limited level of budget allocations, especially maintenance. Schools have separate accounts for each source of income and are not allowed to transfer money from one account to another without permission from the ministry (since 2007, without the permission of the appropriate local government).

About 85 to 90 percent of the education budget is generally spent on salaries, eight percent on goods and services, four percent on student transport, and two percent on investments.

During the first phase of decentralization, transferred functions are financed through categorical grants excluding salaries, and full financing including salaries will start only in the second phase, through block grants. For the first phase of education decentralization, the ministry uses a per student allocation formula to municipalities. The main indicator in the formula is population density. The setting of budgets of individual schools became the responsibility of municipalities and is closely monitored by the ministry. For the second phase, a new allocation formula is to be designed, since the present distribution patterns of maintenance expenditures and of total school expenditures are quite different.

Moldova

Education financing is fully centralized in Moldova. The main financing source for education is the state budget in the form of shared revenues and transfers (grants) for local governments and shared taxes. The percentage of shared revenues is defined in the annual budget law. The specific feature of this regulation is that the minimum percentage of shared revenues to be kept by respective local government should be no less than 50 percent. The second important source is the transfer system. Moldova uses two: an equalization mechanism and conditional grants. Conditional grants are sent to *raions*, which reallocate them to local governments.

Schools can also use own revenues of local governments (from local taxes and other revenues from renting local facilities) and they can build the own revenues of schools (i.e., the "school fund," revenues from extracurricular courses, rental revenues).

Between 1998 and 2003, the financing of education was made through a block grant (general transfer) that was calculated on the basis of expenditure norms. Local authorities enjoyed significant discretion over the allocation of the block grant for various local services. However, given that the need of local governments was constantly larger than the transfer received, one of the results was that teacher salaries became secondary in importance and in many cases teachers did not receive their salaries for three to six months. To address this issue, the central government went back to the system of categorical grants in 2003.

In order to determine how much financing is needed, the Ministry of Finance uses expenditure norms that are based on historical budgeting. Maintenance expenditures, for example, are calculated using the number of students. As a consequence small rural locations that have a reduced number of students receive less funding for maintenance, even if these are typically the largest maintenance consumers.

Moldova has an interesting form of voluntary participation by parents in the education system. Parents directly finance some functions that are severely underfunded by the central government, such as salaries of teachers, maintenance, and even capital

expenditures. This is by no means the result of a conscious decentralization policy, but rather an attempt to compensate for the state's failure to ensure sufficient financing for education.

Romania

Romania's financing mechanism is a two-pillar system that includes global (proportional) financing and complementary financing. Global financing covers staff salaries, materials and services, and teacher in-training. This is financed through conditional grants and comprises over 95 percent of recurrent school budgets. Remaining expenditures, such as dormitories and cafeterias, student assessment, scholarships and student transportation, medical check-ups for employees, school contests, investments, and major repairs are part of complementary financing.

The amounts to be allocated are calculated based on teaching inputs, the most important being teacher salaries. Despite the fact that a standard cost was introduced in the legislation in 2001, the main method used to finance primary and secondary education—with the exception of several pilot counties—continues to be historical budgeting. The main problem that prevented the implementation of the standard cost formula was the fact that the costs—calculated based on the legal norms governing the employment of teachers and non-teachers (including curriculum, class sizes, the national pay scale) as well as relevant norms (for instance, heating)—turned out to be unrealistically large. The standard costs resulting from those calculations came out 30 to 40 percent higher than the historical costs of specific types of school, which made them unacceptable to the Ministry of Finance.

A new education management and finance framework introduced in 2004 was piloted in all school units of eight pilot counties, with the scope of testing the newly adopted regulations. The real effect of the pilot project was to increase school autonomy regarding the employment of teachers and the participation of the school community. The pilot project is continuing, but there are no immediate plans for national replication. The second program included 50 school units in three different counties selected from the initial eight pilot counties, with the main purpose of testing a per-student formula based on historical costs and transferred as a specific grant to local authorities. However, there was no official decision regarding the per-student formula to be tested by the schools, and therefore, no applicable mechanism to test, monitor, and assess it. The second pilot ended inconclusively in December 2007.

EVALUATION

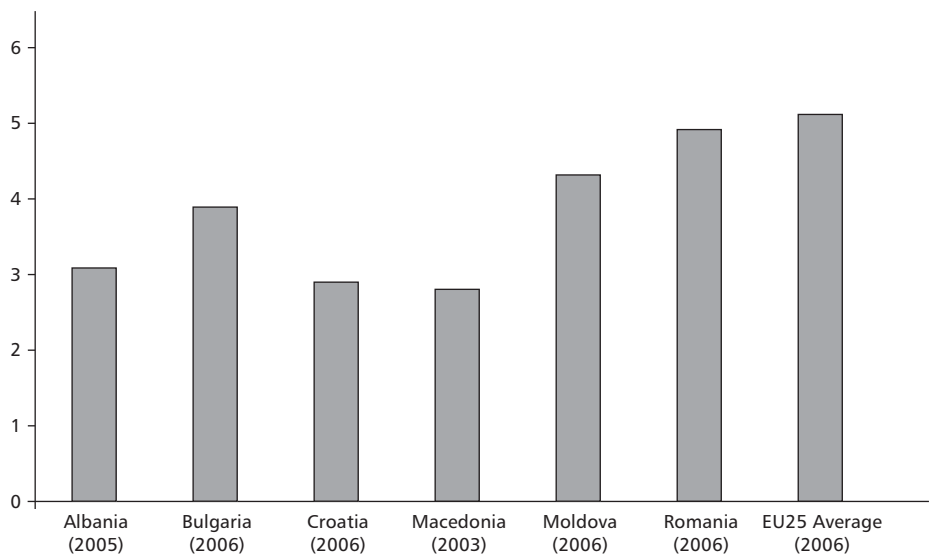
This section will look at the impact of the financial settings in the six countries from the point of view of three issues:

1) Effectiveness in terms of stimulating the quality of teaching;
2) Equity in the allocation of resources; and
3) Efficiency in the allocation of resources and the use of resources by individual schools.

However, an important structural issue needs to be addressed beforehand, namely the underfunding of education.

Looking at education expenditures as a share of the GDP, we can see that most of the countries spend around 3.5 percent of their GDP on education, which is significantly lower than the five percent of GDP spent in OECD countries.

Figure 1.
Education as Percent of GDP



Source: Country reports in this volume.

In all the countries analyzed in this study the underfunding of education has an important impact on salaries. Teacher salaries as a percent of GDP range between 0.66 percent in Romania and go up to 0.86 percent in Bulgaria, both significantly lower than

OECD averages of 1.33 of GDP per capita for primary education and 1.37 of GDP per capita for secondary education (World Bank Education Policy Note 2007). Here, Croatia makes a special case, with 1.70 percent of GDP spent on salaries. This can be explained by the coherent policy of the government to align the increase in the number of teachers with an increase in the funds for salaries. It is also worth mentioning that teachers in Croatia have the status of public servants, which gives them a stronger bargaining position. The government works within a framework contract with the teacher unions that regulate the benefits for teachers working in special conditions (e.g., combined classes, work with students with special needs, schools in remote areas) as well as surpluses for each additional academic level.

Low salaries have led certain categories of teachers in Romania to the limits of subsistence. In Bucharest, for example, the basic salary of a young teacher does not cover even basic expenses, such as rent and utilities.

There are many consequences of inadequate payment. One of them is a loss in the motivation of teachers to perform at their best, which leads to a decrease in the quality of teaching. In other countries cases of corruption during national examinations or competitions for jobs in the academic system have become a worrying phenomenon in the last five years. Corruption is also reported related to promotions in higher education and the awarding of Ph.D. degrees.[4]

Another obvious effect is that teachers search for alternative sources of revenue. In most of the countries in this report there are two main strategies: either migrating to wealthier countries or searching for alternative jobs in education. Albanian teachers, for example, are leaving for cleaning or gardening jobs in Greece, Italy, and Switzerland. This is, however, associated with a significant loss of social prestige. The second option is to take more teaching norms in other public or private schools and, alternatively, provide private tutoring to students. Anecdotal evidence in Albania suggests that in Tirana up to 80 percent of all gymnasium students, and in other cities at least 30 percent, take private lessons, either with their own teachers or with teachers whom they recommend. Moreover, sometimes the pursuit of clients for private tutoring is rather aggressive, even in cases of talented students who do not need supplementary teaching at all. The situation is similar in Romania.

Too much private tutoring distorts the dynamics of teaching and learning in schools. It shifts the focus and expectations of students away from the school while it also creates a strong incentive for teachers to neglect their school classes in favor of afternoon lessons. This increases social inequality, because poorer and rural students have less access to private lessons (Herczyński 2007).

The second important effect of the underfunding of education is a significant decrease in the quality of school infrastructure. However, deficient school maintenance is also due to the fragmentation of responsibilities among too many administrative levels, and it will be treated separately in the following sections.

Effectiveness

One of the questions regarding effectiveness is whether the volume of school finances reduces or increases when local governments become responsible for funding schools.

A model of purely local government financing is to be found only in a few places in the world—such as the United States, where local school districts raise their own revenues through a tax on private property,[5] or some cities in Brazil. However, this model results in highly unequal spending per student across the municipalities, which leads most other countries to chose shared financing.

The experiences with shared financing depend on how much responsibility was transferred to the local governments. In Bulgaria, studies show that local governments that adopted the delegated budget system allocated additional funds for education from their own revenues up to 2.6 percent of the total amount spent for schools. This may seem to be a low figure, but it is a significant increase—almost double—if compared to the national average of 1.4 percent in municipalities that do not use the delegated budget system.

In other words, when it is clear what is the minimum that local governments should spend on a certain function—and that minimum is financed 100 percent from the center—the local authority tends to add even more from their own revenues. This conclusion could be supported by a contrast with countries where there is less clarity in terms of shared responsibilities and no expenditure standards are required. In Albania, for example, maintenance is fully decentralized. However, since local governments do not have sufficient own revenues to finance this function, they use a general transfer in order to finance maintenance—besides many other local services. What typically happens when maintenance competes for funding with other local services is that it becomes of secondary importance. Local governments spend less than they could spend—in the case of Albania around 16 percent of the general transfer on education.

Another question regarding effectiveness is whether decentralization to local governments or school management increases creativity and responsiveness in terms of the syllabus and special subjects delivered according to local needs. There is insufficient data to build on this argument from the countries studied in this report. However, where local financial responsibility increased (Bulgaria), there is evidence that schools and municipalities have become more involved in acquiring new inventory and teaching aids better suited to their local needs.

In the majority of the countries studied here personnel policies remain fully centralized and are exercised by the deconcentrated offices of the Ministry of Education. These units decide on the number of teachers and also hire or fire school directors, teachers, and other non-teaching staff. Local governments therefore have no ability to effect the recruitment and retention of effective teachers. Two exceptions are Bulgaria and Romania, where some school councils[6] in pilot programs appoint directors of schools.

However, teacher remuneration remains the responsibility of the central government in all the countries studied in the report.

Moldova presents a rather unusual situation where parents are deeply involved in supplementing teachers' salaries. This compensatory behavior does not help the central government to resolve the critical issue of underfunding. Another interesting program that Moldova put in place in 2002 is a financing scheme to attract young teachers to rural areas, by providing them with housing or with housing subsidies. The central government would pay the salary of the teacher, while the housing subsidy would be financed from local budgets. However, this scheme was never sustainable, since the own revenues were too insufficient to make the program work in a sustainable manner.[7]

Equity

Four methods can be identified in terms of funds allocation in education (Ross and Levacic 1999):

- *Historic funding or incrementalism*, where a school receives funding for the current year that is the same as it spent the previous year modified up or down by a few percentage points.
- *Bidding*, where a school presents a case for funding based on known criteria and is awarded finance according to how well the funding agency considers that the bid meets the criteria.
- *Discretionary*, where a school receives funding according to the opinions and judgments exercised by the funding agency administrators.
- *Formula funding*, which distributes the funds to schools according to the needs of the specific students in each school.

Obviously, the method that ensures equity in the distribution of funds—in both decentralized or centralized systems—is a formula.

There are two forms of equity that can be included in the formula:

- *Horizontal equity*—which implies the like treatment of recipients whose needs are similar.
- *Vertical equity*—which implies the application of differential funding levels for recipients whose needs vary.

Needs-based funding is an attempt to determine the learning needs of each category of student and the cost of resourcing that need (within budget overall constraints) so that both horizontal and vertical equity considerations are satisfactorily considered.

Formulae can be used to make the allocation of inputs more equitable or in an attempt to make the distribution of educational outcomes more equal. Giving schools the same basic allocation per-student differentiated by grade level is crucial in ensuring horizontal equity in the allocation of resource inputs to both schools and students. Adding differential amounts to the basic allocation per-student—so as to fund students differentially accordant to their educational needs—is a step in promoting vertical equity.

The experience from the countries where the allocation is based on the input costs of the existing network of educational institutions shows that the system is less fair than a formula-based distribution of funds taking into account objective needs for schooling. Fairness can be analyzed by looking at the regional discrepancies in per-student financing. This is the case of Albania, where the regional variation in per-student maintenance costs is high in primary education, especially because maintenance is fully decentralized and there are no norms regulating maintenance expenditures. Tirana has by far the largest maintenance expenditures in the country, reflecting the relative wealth of the capital. It spends three times more than the Durres region on the coast. The same happens in Croatia, Moldova, and Romania.

Before 2005 Macedonia showed the same 3.3:1 ratio in terms of maintenance variation between the capital and municipalities in the rural areas. The start of the first phase of decentralization brought with it the transfer of maintenance management to the local governments, while the financing was ensured from the central government. The allocation of the funds was done using categorical grants. A formula was put in place with three main elements:

1) The lump sum, allocated to each municipality irrespective of the number of students (for primary schools only).
2) The number of weighted students.
3) Lower and upper buffers.

The current design of the formula protects the small municipalities (through the lump sum), provides more funds to the small schools with small classes where maintenance costs per student are higher, and also protects the municipalities from excessive changes from previous year's allocation.[8]

Bulgaria adopted a new mechanism for funding municipal education activities following the introduction of the quasi-voucher system in 2007. Local governments in Bulgaria were grouped in four general groups based on key demographic and geographic criteria. The costing standard was defined for each of these four groups and mid- to long-term targets were set according to the implementation of tailored programs for each of the groups, with the ultimate goal to reduce the factors driving the different levels of costs for education. The delegated budget system has been nationally expanded in 2008, further increasing the financial and management autonomy of schools.

Efficiency

Efficiency refers to two situations in the education sector.

First, it refers to the allocation of available funds for education in a way that stimulates the optimization of the school network and staffing. Local administrations need to be involved in the allocation process, as they are better positioned to assess the need for (especially primary) education and may also be in a better position to determine the need for staffing, as they balance their education expenditures with other parts of the local budget. The role of the central government here is to decide how to allocate the funds and manage the distribution mechanism.

Second, it refers to the way in which individual schools use their resources and looks at how much discretion local governments (and schools) have to manage their own budgets. The starting assumption is that giving a higher authority to local governments to decide how to spend the allocated resources leads to higher efficiency because they will become aware of the scarcity of their resources—hence the need to use their resources efficiently—only when they are in charge of managing those resources. The role of the central government is to disseminate good practices that would help local governments use innovative methods to increase efficiency.

Table 1.
Student–teacher Ratios (STR)

Country	2000	2003	2006
Albania	—	19.56	—
Bulgaria	10.6	13.2	13.8
Croatia	—	12.82 (primary) 12.20 (secondary)	11.5 (primary) 11.16 (secondary)
Macedonia	20.30 (primary) 16.91 (secondary)	18.80 (primary) 18.37	—
Moldova	14.90	13.60	12.30
Romania	—	15.34	14.42
OECD	—	16.30 (primary) 13.90 (secondary)	—

One way of assessing internal efficiency is by looking at student–teacher ratios (STR). Earlier research focused on primary education in the Visegrad countries (Czech Republic, Hungary, Poland, Slovakia) shows that the ratio has increased over the last decade. There are two main reasons to explain this. On the one hand, the drop in the

number of pupils causes an increase of the STR. At the same time, evidence shows that countries where salaries of teachers are paid by the state (Czech Republic, Slovakia) have also experienced a rise in the total teaching force. On the contrary, in countries where the local level is in charge of management and financing of primary schools, the overall number of teachers has actually decreased.

All of the countries in this study face negative demographic processes; however, the policy efforts to deal with them vary from country to country. At one end of the spectrum is Albania, with a high STR of 19.56 (2003), where government efforts were surpassed by an important internal population migration from rural to urban areas and from the northern part of the country to the south. Between 2004 and 2007, the number of primary school students fell by nearly 10 percent. More than 16 percent of the total decrease in school enrollments occurred in rural schools, while the student population in urban schools in those regions grew by more than half.

A different case is Croatia, with a relatively low STR that is constantly decreasing. Besides the similar decrease of number of students in schools, there are several developments that make Croatia different. The state continues to open new schools, given the return of refugees and the renewal of schools that were destroyed during the war in the 1990s. As a result Croatia has a continuous increase in number of schools and teachers[9] and a tendency to reduce the number of students in the class. From 1994 until 2004, the average number of students in primary school classes decreased from 24 to 21. This would imply that the system provides higher-quality teaching to students; however, at a higher cost for the system.

Macedonia has not adjusted the teaching force to the decreasing student population either, and the student–teacher ratio decreased by only 7.3 percent. At the same time the size of classes went down by about 5.2 percent. Still, the student–teacher ratio is in line with OECD averages of 16.5 students per teacher in primary education and 13.6 students per teacher in secondary education.

In order to deal with the change in the demographics, the Bulgaria government went for drastic school closures. In Bulgaria, 410 general education schools (of which more than 90 percent were in rural communities) were closed between 1999 and 2007.

In Romania the number of students fell by three percent, but the number of teachers grew by two percent between 2003 and 2005. Throughout this period, the student–teacher ratio fell by five percent. This may be partially due to increased number of part-time teachers. Overall, the government has not been pursuing an active policy to improve the efficiency of the sector in a period of serious budget constraints.

Moldova is in the midst of an important and difficult process to transform old general schools in colleges and high schools. In addition, starting in 2004 there has been a significant decrease in the number of schools, mainly as a result of the decreasing number of students. The government has found a solution that has a substantial negative impact on the quality of teaching. In rural areas with a lower number of students,

classes were amalgamated, meaning that children in the first, second, and third grades are learning together.

The school management system encourages efficient use of resources in the case of delegated budgets in Bulgaria as well as in Macedonia, which uses elements in the formula that encourage efficient spending of resources. For the rest of the countries efficiency in spending is left at the discretion of individual directors. Although they are unable to retain savings, they can decrease heating and electricity costs by simply turning off the heaters or replacing broken windows. They can increase their own revenues by organizing donor events and collect own revenues for the school, and they can rent school facilities, although schools never rely solely on this type of earning.

The delegated budget system (DBS) in Bulgaria is a good illustration of a budgeting system that promotes efficiency. Within this system the municipality transfers the right to make independent administrative, organizational, and financial decisions to the school authorities, and they are also held accountable for the results of these decisions. More specifically, the municipality and the school directors agree upon the mechanism of allocating resources among schools, while schools become secondary budget holders, compile their own budgets, and have their own bank accounts.

The experience of Bulgaria shows that delegating budgets to the schools and local governments is a good solution to regulate relations between municipalities and schools and increases efficiency overall. The total amount of resources and their allocation among schools are determined in a transparent and objective manner and it is no longer possible to make excuses for poor performance or blame others. Each director can calculate the amount he or she is entitled to, and the amount of the neighboring school. The formula includes adjustment ratios, buildings, and additional activities like dormitories and help reflect the specificities of schools at the local level. More funds are available because schools have incentives to increase their own revenues.

DBS is a good tool for reducing costs, because spending becomes more efficient. There are incentives to save because the savings are kept by the schools to be spent on the priorities the schools have identified. Expenditures are more efficient. If in the past schools contributed to a municipality's unpaid bills, now they end the year with carry-over surpluses.

SOURCES CITED

Country reports in this volume.

Herczyński, J. (2007) *Current Problems of Education Finance in Albania*. Draft paper..

World Bank (2007) *Romania Education Policy Note*.

Ross, K. and R. Levacic (1999) *Needs-based Resource Allocation in Education via Formula Funding of Schools*. Paris: International Institute for Educational Planning.

NOTES

1 This was done with the support of external assistance. It is not clear whether the program will be implemented further.

2 For a more detailed discussion on the underfunding of Albania education, please see Jan Herczyński (2007).

3 With the exception of students of poor rural students, to whom the state budget reimburses 90 percent of textbook price.

4 World Bank (2007).

5 Even in the United States, levels of government are now assuming new responsibilities in financing education

6 The school councils consists of one representative of the regional inspectorate, one representative of the municipal administration, two representatives of the pedagogical staff of the school, and two parent representatives.

7 The scheme was implemented four years later with external financing.

8 For a more detailed analysis of the formula, please see the Macedonia chapter.

9 The increase in the number of teachers is also due to the inclusion of two foreign languages in the obligatory school curriculum.

Financing Education in Albania

Sheferedin Shehu

Executive Summary

Albania has built a complete education system from preschools to postgraduate studies. The government assumes the bulk of the responsibility for financing pre-primary, primary and secondary education, vocational and technical education, and training and tertiary education. Public funding covers 100 percent of the recurrent and capital expenditure of government schools while no funding is provided for private schools.

During its transition towards a market economy, Albania has shown different trends of education spending. Except for the three years of 1990, 1991, and 1995, public spending on Albanian pre-university education, as a share of GDP, has steadily decreased, a trend that repeated itself during the period 1999–2004. Public spending on primary and secondary education as a share of GDP at the beginning of the transition (1989) was four percent. At the end of 1998, the share fell to 2.8 percent. Since 1998, the share has also been decreasing—its lowest level was in 2002 (2.05 percent). Educational spending as a share of GDP has also been at a lower level than in other countries in transition.

Education spending as a share of total public spending in Albania increased slightly between 1999 and 2004, except in 2002, when expenditures were lower than in 2000. This reflected the transition from communism to the market economy, which reduced the number of state functions, while increasing the government's role in the social sectors. Education spending, when compared to total public spending during 1999–2004, was stable, indicating that education is considered less important than other sectors.

Enrollment in pre-university education had decreased to 61 percent of its historical high by 1999, but increased to 73 percent by 2003. Since 1999, they have slightly decreased in primary education, and increased in secondary education. This might explain the low level of Albania's government spending on education. The level of spending per student has been increased as a result of the decreased enrollments, but still remains low compared to other countries. This again shows the need for increasing the total spending on education in relation to GDP and general public spending.

Local government law defines education as a shared function. Responsibilities, however, between central and local governments are not allocated based on a sectoral law as they should be. Because education is a public service involving both local and national benefits, the size of local government should be taken into consideration when the new law for defining local government responsibilities for the education service is drafted. Except for the large cities, the assignment of responsibilities for the remaining local governments should be based on the principle of cooperation between the different levels of local governments.

Budgets for education and training were allocated to both the central and local government levels without a clear assignment of functions and responsibilities. There are also no national standards for education that would level out differences in the provision of education across geographic areas. These policies have resulted in an inefficient and ineffective use of funds.

During 1999–2003, recurrent expenditures accounted for 76 to 90 percent of the total education budget, while capital expenditure accounted for the remainder. Of the recurrent expenditure, wages and social contributions were the largest component, accounting for 96 percent, with only around five percent spent on teaching materials, utilities, and other maintenance expenditures. Moreover, they have been unequally allocated among districts, as evinced by the differences between the share of students and the share of budget allocations by district. In 2003, 21 out of 37 districts received a higher education funding share than their students' share.

Financial sources of education funding show that central government sources are dominant. This is explained by the high degree of centralization. The share of the earmarked transfers in education funding represents more than 90 percent of total funding. It provides financing for wages, salaries, social contributions, and capital investments. Central government funding allocation is not based on any formula or criteria, but on the sole judgment of the central government officials. The remaining share of funding is provided by two sources of local government, a general transfer received from the center, as well as own revenues. Own revenues are insufficient for the many local needs to be addressed, other than education.

The central government has also exercised strong control of the education infrastructure, human resources, supervision, and school planning. Thus, local governments and schools do not have any say in how to spend the allocated resources. This calls for substantial changes in responsibility sharing, financing schemes, and managerial autonomy. More specifically, school operation and maintenance, which are already exercised as a local government function, should be based on national standards, to ensure that students located in every area of the country receive the same minimum level of service. The allocation of funds should be based on the criteria aligned with these national standards. The pool for education investments should be determined based on situation analysis and education standards, or linked to specific national tax revenue sources. It should then be allocated by formula or investment proposals—their ranking based on the predefined criteria and involving local government representatives in the proposal selection process.

The Ministry of Education (MoE) has developed a national education strategy which aims to improve the quality standards in education, increase education funding, and decentralize

education functions. Specific measures which require additional financing include school investments, training of administrators and teachers, reducing student–teacher ratios, increasing teachers' salaries, etc. This ambitious plan calls for a careful examination of education policies, past and present patterns of educational finance, and overall performance of the system in order to assess the sustainability of the reform. The first step was taken in the 2005 budget by providing sources for investment funds for schools in the larger cities and regions. However, more needs to be done, including the development of criteria for investment funding allocation and devolving more responsibilities to local government for school management. This will increase the transparency, equity, effectiveness, and efficiency of the national budget for education.

INTRODUCTION

General Background

Modernizing education is essential in the transition to a market economy, and is particularly important to social and economic development in Albania, where more than 45 percent of the population is of school age. It also has been a challenge as Albania departed in 1990 from a communist system, which had fallen short of responding to changing economic structures, to an increasing labor market demand for new skills.

The failure of the previous economic system was best reflected in the drastic decline in the demand for vocational education. While in 1990, when around 72 percent of the total student body were enrolled in vocational schools, one year later this dropped to 21 percent, and in the following years many of these schools were closed or restructured into general secondary schools (Table 1).[1]

Table 1.
Student Enrollment in General and Vocational Secondary Education

School Year	Secondary Education Total	General Secondary Education		Vocational Education and Training	
		Number	Percent	Number	Percent
1990–1991	205,774	57,589	28	148,185	72
1995–1996	89,895	71,391	79	18,504	21
1999–2000	102,971	88,470	86	14,501	14
2000–2001	107,435	90,960	85	16,475	15
2001–2002	117,623	99,006	84	18,617	16
2002–2003	126,652	106,361	84	20,291	16
2003–2004	134,702	112,793	84	21,909	16
OECD	—	—	48.3	—	51.7

Enrollment in primary and secondary education saw a dramatic decrease during the first five years of the transition. Secondary education enrollment decreased by 56 percent between 1990 and 1995. Starting in 1999, the trend continued, however, only for primary education, mainly as a result of demographic changes (Table 2). However, for secondary school education, the trend reversed, given the restructuring of vocational schools into general secondary schools, as explained above.

Table 2.
Public Education: Changes in Student, Teacher, and School Numbers, 2001–2004 by Percent

Education Levels	2001–2002			2002–2003			2003–2004		
	Students	Teachers	Schools	Students	Teachers	Schools	Students	Teachers	Schools
Pre-primary	–2.18	–5.39	–7.49	–3.21	–0.06	–8.75	–0.54	–0.06	–0.71
Primary	–2.15	–2.29	–1.21	–3.77	–2.97	–3.00	–2.47	–2.39	–1.32
Secondary	9.48	–0.69	0.54	7.68	2.40	–2.40	6.36	4.71	2.19
Total	**0.27**	**–3.94**	**–4.05**	**–2.52**	**–0.24**	**–5.59**	**–0.68**	**–1.02**	**–0.71**

The main provider of primary and secondary education remains the government. In the academic year 2004–05, there were 689,215 students in the public system, as compared to only 27,989 in private schools. However, in terms of changing tendencies, the number of students attending private schools is going up at rates between nine percent and 88 percent, despite high fees charged by private schools, and a general sense that public schools provide better education (see Table 3).

Table 3.
Student Numbers in Private Schools and Growth Rates

Academic Year	1997–1998	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005
No. of students	1,311	10,605	14,952	18,060	25,450	27,989
Growth rate	88	29	17	29	9	9

Source: *Education Sector Public Expenditure Review,* The World Bank.

The education system of Albania is organized into four levels:

1) Preschool (non-compulsory) education for children three to six years old.
2) Primary (compulsory) education for children six to 14 years old, organized into two cycles (*lower* for ages six to 10, and *upper* for ages 10 to 14). Beginning in 2004, compulsory primary education was extended to nine years.
3) Secondary education, which includes two types of education: general and vocational. Graduates from four-year general secondary education are eligible for university education. The vocational schools offer two types of programs: a three-year course that prepares qualified workers, as well as a five-year one that prepares technicians (managers). Only the graduates from the managerial track of vocational education can be admitted further into tertiary education programs.

4) Tertiary education can be undertaken by students who graduated from general secondary schools or vocational schools of the second level.

A few technical schools provide so-called *secondary social and cultural education*, which includes foreign languages, fine arts, music, sports, and pedagogy. These are, however, only a few schools in the country, mainly a hold-over of the previous four-year secondary education system.

Enrollment is free of charge for primary, general secondary education, and some vocational schools. In some vocational schools students are selected through competition.

The Status of Education Functions and Responsibilities

Responsibilities in the pre-university education are defined by:

- the Law on Pre-university Education, which provides equal rights to all Albanian citizens for accessing education at all levels, and describes the primary and general secondary education system;
- the Law on Secondary Vocational Education and Training, which supports the development of a common educational system in response to social, economic, and technological changes, and labor market needs. The law provides for the right to receive lifelong education and training;
- government decrees and regulations that support the implementation of the above laws.

The main institutions responsible for the system of education are at the central level the Ministry of Education (MoE), Regional Directorates of Education (RDE) in 12 regions and in Tirana, District Offices for Education (DOE) in 25 districts,[2] as well as four agencies subordinated to Ministry of Education.[3] The RDE and DOE are deconcentrated offices of the Ministry. Local governments are also involved in the delivery of some functions within the system (maintenance).

The 1998 Law on Pre-university Education defines education as the sole responsibility of the central government. At the same time, the additional Law on Local Governments, adopted in 2000, defines pre-university education as a shared responsibility between local and central governments, and created confusion over the allocation of responsibilities. In an attempt to clarify this and speed up the decentralization process, a National Strategy for Pre-university Education Development was adopted in June 2004. This mandates the MoE, the Ministry of Finance (MoF), and the Ministry of Interior (MoI), to clarify the transfer of education responsibilities from central government to the local governments.

Little has been done in this regard, however. The provision of education remains highly centralized, with its confused financing schemes, as described below.

The only function fully decentralized to local governments is school operation and maintenance. The property rights, however, have not been transferred to local governments. Given the fact that own revenues are insufficient to finance maintenance, local governments use part of a general transfer (allocated through a formula). The remaining responsibilities are delegated and are financed annually through categorical grants provided for in the annual state budget law.

In Tirana in 2004, based on the national strategy for education, the central government piloted the transfer of financial competences to local governments. This process proved successful, despite the fact that the city had management capacity problems. Using the experiences of the pilot program, the central government extended, in 2005, the financial competences further to the Regional Directorates of Education and municipalities. As for smaller cities across the region, the responsibility was taken over by the Regional Directorates of Education. The MoE retained the responsibility to develop national standards for education expected to ensure quality in school operation and maintenance. The results of the past two years show that the delegation of the responsibility should have been preceded by an effort to build the capacity of local governments in order to increase the rate of success. However, even if the context was imperfect, the exercise provided a good opportunity to distinguish between the content of education, now driven by the deconcentrated units of the MoE, and the financial management of education, which remained the responsibility of local governments.

Personnel policies remain fully centralized and are exercised by the deconcentrated Regional Directorates of Education. These units decide on the number of teachers and also hire and dismiss school directors, teachers, and other non-teaching staff. Local governments are simply the paymasters of the wages and salaries for schools,[4] while the level of salaries is defined by the central government. The Regional Directorates of Education inspect and monitor school performance within the region.

Regarding the school network, there are no national standards, either for the size of a school or the establishment or closure of schools. This is made on a case-by-case basis by the Regional Directorates of Education, based on their assessment of local demographic developments.

Schools have no authority or discretion over the budget. The only role they play is the submission of their budget requests in the early stages of the budget process, and later lobbying or unofficially negotiating with local governments and Regional Directorates of Education in order to obtain needed funds. This situation reduces the participation of the communities in the governance of education, while limiting the involvement of schools boards in minor issues, most often with no impact on the quality of education.

In conclusion, the slow progress of education decentralization in the last decade shows that the benefits of decentralization were accepted mainly in principle. Most of the functions still belong to the central government. One lesson from the devolution of investment expenditures is that the transfer of education responsibilities should be done asymmetrically, respecting the differences in size and capacity among local governments.

FINANCING PRE-UNIVERSITY EDUCATION

Financing Arrangements in Education

Government spending on education depends on the country's spending capacity, total public spending, the size of the education sector, and the type and cost of resources used for the education. During its transition towards a market economy, Albania has shown a fluctuating evolution in its education expenditures.

Table 4.
Share of Pre-primary, Primary, and Secondary Education to GDP (in millions of ALL)

Items	1999	2000	2001	2002	2003	Adjusted 2004 Budget
Percent of GDP	2.43	2.32	2.34	2.05	2.15	2.35
Pre-primary and Basic	2.34	2.27	2.28	1.64	1.60	1.80
Secondary (General)	0.08	0.05	0.06	0.27	0.30	0.40
Secondary (Vocational)	0.00	0.00	0.00	0.13	0.23	0.14
Training	0.01	0.01	0.01	0.01	0.01	0.02

Source: Author's calculations, based on data from the MoF.

At the beginning of the transition (1989), primary and secondary education expenditures were four percent of GDP. The ratio fell dramatically to 2.8 percent at the end of 1998, and further to 2.05 percent in 2002. Constantly lower than the OECD average of 5.4 percent, these figures led experts to the conclusion that education in Albania is treated as a "luxury good" (Palomba and Vodopivec 2001).[5]

Generally, the transition to a market economy substantially reduces the involvement of the state in the private market, while it increases its role in the social sectors.

Education was an exception to this rule in Albania. Unlike other sectors, education expenditures, as a share of the total public spending, increased by only one percent between 1999 and 2004, with the exception of 2002, when the level of expenditures fell below that of 2000 (Table 5).

Table 5.
Pre-university Education as a Percent of Public Spending

Pre-university Education as a Percent of Public Spending	1999	2000	2001	2002	2003	Adjusted 2004 Budget
General Government Spending (in mil. ALL)	165,692	170,620	186,049	192,517	201,152	240,360
Percent of Public Spending, of which:	7.16	7.51	7.69	7.22	7.95	8.18
Pre-primary and Basic	6.89	7.33	7.49	5.77	5.93	6.26
Secondary (General)	0.23	0.15	0.18	0.95	1.13	1.38
Secondary (Vocational)	0.01	0.01	0.00	0.45	0.84	0.48
Training	0.02	0.02	0.02	0.04	0.05	0.06

Source: Author's calculations, based on data from the MoF.

The level of spending per student in nominal terms increased as a result of the decreased enrollments but remained low compared to other countries (Table 6).

Table 6.
Spending per Student in 2003

Indicators	Spending per Student (ALL)
Minimum	16,313
Maximum	46,441
Average	27,030
Standard Deviation	7,150
Coefficient of Variation (Percent)	26.45

Sources of funding for education pre-university education remain highly centralized, with funding provided mainly by the central government.

Table 7.
Financing Sources in Pre-university Education (Percent)

	2001	2002	2003
Pre-primary, Primary, and Secondary Education, of which:	100.00	100.00	100.00
Earmarked transfer from the central government	88.45	91.23	92.15
Own local government revenues	0.14	0.70	2.39
General transfer from the central government	11.41	8.06	5.47

The earmarked transfer in education funding is spent by the central government on school investments, salaries, and social contributions. The general transfer is an unconditional grant used by local governments to fund school operation and maintenance.

Table 8.
Structure of Total Education Expenditures by Budget Categories
(ALL and Percentage of Each Item of Total Expenditures/Year)

	Wages and Social Security Contribution	Operating and Maintenance	Investments	Total Education Expenditures
2002	12,066,175	498,176	1,329,801	13,894,151
	86.84%	3.59%	9.57%	100%
2003	12,947,901	602,748	2,433,800	15,984,449
	81.00%	3.77%	15.23%	100%
Adjusted 2004	14,144,850	726,000	4,787,000	19,657,850
	71.96%	3.69%	24.35%	100%

Education expenditures are heavily biased towards wages, which is typical of countries in transition. About 80 percent of the education budget is generally spent on salaries, around three percent on operating and maintenance, while a higher 10–20 percent are funds for investments.

A more detailed picture by level of education is shown below:

Table 9.
Structure of Education Expenditures by Budget Categories:
Pre-primary and Primary Education

	2002	2003	Adjusted 2004
Wages and Social Security	9,836,114	10,302,331	15,036,000
Operating and Maintenance	251,332	218,753	11,330,000
Investments	1,012,072	1,405,741	306,000
Total	**11,099,517**	**11,926,826**	**3,400,000**

Table 10.
Structure of Education Expenditures by Budget Categories: Secondary (General)

	2002	2003	Adjusted 2004
Wages andSocial Security	1,600,006	1,920,960	2,020,000
Operating and Maintenance	30,060	40,850	40,000
Investments	204,308	307,679	1,250,000
Total	**1,834,373**	**2,269,489**	**3,310,000**

Table 11.
Structure of Education Expenditures by Budget Categories: Secondary (Vocational)

	2002	2003	Adjusted 2004
Wages and Social Security	602,041	696,344	763,000
Operating and Maintenance	159,213	274,364	260,000
Investments	113,401	720,208	137,000
Total	**874,656**	**1,690,916**	**1,160,000**

Table 12.
Structure of Education Expenditures by Budget Categories: Training

	2002	2003	Adjusted 2004
Wages and Social Security	28,014	28,265	31,850
Operating and Maintenance	57,571	68,781	120,000
Investments	20	172	0
Total	**85,605**	**97,218**	**151,850**

The criteria for the allocation of funds from each category vary depending upon each specific budget category and will thus be described separately. As a general rule, the central government allocates the funds through categorical grants without using cost standards or any other allocation criteria in the process.

Investments

Looking at the overall trends in investment expenditures, it is difficult to identify the main direction of the investment financing policy in Albania. Capital expenditures are increasing and the growth rates are significant (around 50 percent per year). While primary and secondary schools receive increasingly larger investment budgets, the funds for vocational schools are decreasing significantly. In 2004, the capital spending of vocational secondary education declined by 80 percent.

Initially, the decision for both the level and allocation of investment funds stood with the MoE. In the early stages of the budget process, local governments submitted a proposal for school investment needs within their localities. Accordingly, they summarized the existing requests and submitted a final list to the MoE. The MoE centralized all the lists, and then submitted and negotiated the final proposed amount with the MoF. Once the budget law was adopted, the Ministry of Finance sent the investment appropriations to the Ministry of Education, which finally allocated it to specific projects. Upon budget approval, the list of individual projects to be financed across the country was prepared. Finally, the list of allocations for specific schools was sent to the Regional Directorates of Education; these started the bidding and selection process of the company to undertake the works.

In 2006, the MoE changed the investment policy, aligning it closer with local needs and priorities. A decentralized system was put in place, where the MoE allocates investment funds to municipalities. The investment pool was thus divided into very small pieces, which precipitated the emergence of political pressure to ensure that every municipality received some part of the pie, regardless of their size. This has also narrowed down the range of capital works to be undertaken, in some cases to just minor repairs.

In 2007, the Ministry of Finance again changed its approach, and switched to a system of competitive grants. The new system is based on the idea that municipalities submit investment projects to a competitive selection process by the central government. Only the best projects would then be selected for funding. The system was introduced to cover all sectors, not just education. The Ministry of Finance has also imposed a uniform set of general criteria for the selection of investment projects. Those criteria are not suitable for education, and the Ministry of Finance had a hard time applying them. In 2007, however, the process ended up with a small number of substantial projects, rather than hundreds of minor-repair projects, as in 2006.

The current allocation of investment funds creates large disparities among districts. Indicators calculated for 2003 show that the allocation of investments does not follow the number of students enrolled by districts. A comparison between the share of students by district with the share of investments shows that there are big differences among them. The maximum for those who received less than their students share is –5.85 percent and the maximum for those who received more is 2.58 percent. Twenty-one districts received higher funding as compared to what they should have received according to the number of students. Sixteen districts were allocated less funds as compared to their entitled amounts given the number of students served. Even if the percentages look small, they are very high if we consider that the highest share of students (11 percent) is in but one district while the other largest districts have less than 6.3 percent of the total number of students.

During 2002–2004, total spending on education in Albania and the relative share of investments to total spending increased (Table 6). The increase of the share of investments is also a result of foreign financing. In various years, donors have provided up to 40 percent of total public investment expenditures for education. Thus, international donors have played an important role in redirecting the national priorities in Albanian education.

Among different levels of education, there is no regularity in the share of investments and recurrent expenditures. Investment spending in Albania only appears to be concentrated on primary education but, in fact, investment at this level has not been a priority for Albanian authorities. During 2002–2004 the share of investments fluctuated between 76 percent to 58 percent. Moreover, the share of investments for primary education in 2004 is lower than in 2002.

Teachers Salaries and Social Security Contributions

True decentralization implies that local governments have the authority to hire and dismiss school staff within national professional requirements for different categories of teachers. In practice, however, because funding for salaries is generally large, and impacts the whole economy, it usually remains centralized or is delegated to local governments.

Regardless of the degree of decentralization of the function, what is important is the efficiency and effectiveness of its use. In case it remains centralized, the function should be delegated based on specific rules, which means that, at a minimum, local governments should be compensated for the costs incurred from the service. The central government can control and decide the level of salaries by teachers' categories, but local governments should be allowed to make allocations among the education expenditure items. Another incentive could be the inclusion of salaries in a general transfer pool, which allows more local government discretion over spending.

The Albanian education sector is supportive of these good practices, but the central government retains the responsibility on wages. Local governments are simply the paymasters, holding no authority for the hiring or dismissing of teachers. The administrative cost for local governments is not compensated by the central government.

Salaries are calculated on the basis of actual employment levels in schools and on average salaries (by education level) for each municipality. Funds for salaries are then sent as a categorical grant to municipalities, who pay the school staff, but are not recorded either as revenues or expenditures of local governments, though they do appear in municipal treasury accounts. There is also a small fraction of wage expenditures that is covered by the local governments. This is mainly due to the employment of an additional guard or cleaner in some of the schools.[6]

The main problem of the underfunding of salaries remains. The salary of a primary school teacher with 15 years of service is about 10 percent below the public sector average. There is low variation in the pay among teachers. Quality is measured by the years of experience only, the highest category having over 25 years' experience. On the other hand, there is a bonus of up to 30 percent for teachers as an incentive to work in rural areas. This bonus has contributed to retaining staff living in or close to rural areas, but has not attracted young and qualified teachers to those regions. Another indicator of the low level of teacher salaries is their share of total expenditures (Table 8).

The compensation of education staff in Albania accounts for the largest share of recurrent expenditures. In 2002–2004, 95–96 percent of recurrent spending went to wages and social contributions (Table 6). The other four to five percent was divided moderately among utilities, maintenance, teaching materials, scholarships, etc. Also included are welfare services, which really belong to social protection and not education. They absorb, on average, over one-fifth of non-staff resources.

The proportion of current expenditures going to salaries is much higher in Albania than elsewhere. The high share spent on wages is related to a very "tight" educational budget and not to broad economic inefficiencies. As mentioned above, the number of teachers is based on rates determined by the MoE, not on the analysis of different conditions across the country. Taking into consideration the salary level of teachers, which is lower than other civil servants, and relatively high student–teacher ratios, we can conclude that the Albanian education sector is subject to severe budget constraints. The latter can be explained by the low share of non-staff spending. Inadequate financing has forced administrators to reduce spending on "not immediately necessary" items like maintenance, utilities, and teaching materials. This strange budget rule has damaged the quality of education, because within goods and services the priority should be given to utility bills and small repairs.

Maintenance

Most of Albania's school structures date back to the 1960s and 1970s in urban areas and to the 1970s and 1980s in rural areas. Although schools in rural areas were built later, they were equipped with fewer gymnasiums and laboratories, and many lack even bathrooms. In urban areas, the situation is different because their facilities are somewhat better. Many physical facilities in Albanian education are in urgent need of reconstruction and maintenance. Many schools also lack primary services—and when provided, they are often of poor quality.

Maintenance is an important education expenditure item. In Albania, by law, maintenance is a shared responsibility. The deconcentrated offices of the Ministry of Education, the Regional Directorates, finance the acquisition of furniture, teaching materials, and student transportation. Local governments cover the financing of heating, electricity, telecommunications, water, waste disposal, cleaning, minor repairs, and painting.

Funding for this function by local governments is ensured through the general transfer made from the central government. This unconditional grant is allocated to municipalities on the basis of three criteria: population (70 percent), surface area (15 percent), and urban population (15 percent). Local governments have the necessary but difficult decision as to how they divide the grants among local priorities. But because local governments do not have property rights for the schools, there is no incentive for them to invest in maintenance, which means that often they only allocate a minimum budget, just enough to keep the school open. Obviously, this is insufficient for an environment nurturing quality education. Albania spends typically less than four percent on maintenance (see Table 8), which is almost five times less than the OECD average (over 19 percent).

Some researchers argue that a tight education budget not only transfers the cost to future generations, but is likely to cost the current generation as well. This is supported by the argument that reducing the government commitment to financing education has often led to the increase of private coverage of educational costs. Thus, lower public financing usually implies shifting costs to families. In Albania, this is manifested in the high growth of private education during 2002–2004, though not by its share of total education, which remains low due to the low level of income and lack of direct support from the government.

In conclusion, the financing system lacks an overall strategic vision and includes several financing mechanisms that are not coherently linked with each other. Central government financing does not provide any incentives for local governments and schools to save or spend efficiently. Local government funding exists but is insufficient. Overall, local governments and schools have a reduced role in the management of their own budgets.

Private Funding

Increasing demand for private education would suggest dissatisfaction with the free public sector schools, a particularly important factor in transition economies. Albania is no exception. Since private schools operate as private businesses, they do not receive state funding; however, based mainly on the fees they charge (fees established at market rates), private education displays growth rates of up to 40 percent in terms of student enrollment, totaling more than three percent of the total number of students in Albania in 2003.

Table 13.
Private Education, Changes in Student, Teacher, and School Numbers, 2001–2004

Education Levels	2001–2002			2002–2003			2003–2004		
	Students	Teachers	Schools	Students	Teachers	Schools	Students	Teachers	Schools
Pre-primary	75.96	66.37	82.76	10.18	9.57	15.09	15.89	11.65	39.34
Primary	30.23	64.89	50.00	24.84	33.06	20.37	40.95	26.06	36.92
Secondary	40.91	34.2	68.42	21.42	21.67	18.75	59.42	37.29	34.21
Total	**40.99**	**52.75**	**65.48**	**20.79**	**25.50**	**17.99**	**40.92**	**28.03**	**37.20**

The development of private education alternatives has the advantage to rapidly adapt to the needs of students and is an opportunity to broaden consumer choice. Private schools can initiate and increase the pressure on government for innovating curricula or make better use of teachers and provide them with better conditions. In Albania, the competition in education between private and public schools is still in its infancy, and thus there is little space for improving the quality of education. An example is the preparation and printing of textbooks used in private schools, which are now the responsibility of the MoE. The schools cannot even influence the quality of the books they will buy for their students, because of the ministry's elusive standards and rules.

THE EXISTING FAMEWORK FOR EDUCATION FINANCING

The Impact of Financing on the Quality of Education

In the long term, decentralization tends to benefit the quality of education, and most western European countries involve local governments in the provision of this service to a significant degree.

A thorough analysis of education in Albania shows that that the central government is still at the beginning of its efforts to decentralize the sector. Local governments, however, seem to be ready to become a more important participant in education, judging by the increasing level of own revenues allocated to this sector, up from 0.14 percent in 2002 to 2.39 percent in 2004. Not only do they allocate more within the responsibilities they are assigned, but in some cases, they are also using their own revenues to finance functions that are still managed by the central government, such as school investments.[7]

School operation and maintenance is the only function fully decentralized to local governments. Because maintenance is financed through a general transfer, local governments can now freely decide on what and how much to spend. Frequently, smaller local governments have nothing left to allocate to maintenance. This does not exclude, at the same time, positive experiences after the decentralization of the function. Some larger local governments not only allocated more to maintenance, but also introduced innovations in the process of the assessment and prioritization of maintenance needs. For example, some included in the assessment a survey of parental satisfaction.[8] With the involvement of the stakeholders, local officials made decisions that eventually led to a more efficient use of the sources for school maintenance.

The definition of the transfer pool through a percentage of local taxes collected creates a problem for small cities which have less buoyant tax bases. Such areas are in a rather constrained financial situation, where they need to allocate less funds to expensive public services. This frequently forces them to reduce operating and maintenance costs which, in turn, leads to a faster deterioration of the school infrastructure. The Ministry of Finance has improved the allocations for secondary schools through RDE (teaching equipment, school furniture), but has no fiscal instruments to motivate local governments to increase their share of education funding.

Unfortunately, the centralized financing schemes do not involve school management in the process. The director has the sole responsibility to manage the teaching process. Schools do not have any budget authority, so they cannot play any role in providing better teaching conditions, materials, or methods.

Low and centrally controlled salary levels do not promote the quality of education. Local governments have no incentive to attract and retain good teachers, given that the level of their salaries is outside their authority. Additionally, there is no bonus policy left at the discretion of local governments to reward good performance, which could support local governments in attracting and retaining good teachers.

Declining student enrollment was not matched by a similar decrease in the number of teachers. One cause is the incremental budgeting approach used to finance education. This is focused more on inputs (hours of teaching) rather than outputs (results). In such a system, the opportunity is missed to support real competition among schools and deliver higher-quality teaching.

In the larger cities there are more chances for increasing competition among schools, and thus strengthening parents' choices. The coexistence of private and state schools is an opportunity for competition in more developed areas. However, the number of private schools is still low and parents' choices relies upon their level of income. In the future, this could be an area worth considering for an alteration in state policies regarding support for private education. One aspect for consideration might be the provision of subsidies for private schools based on the cost per student.

An educational system in which salaries are low and falling, and working conditions unattractive, cannot be sustainable in the long term. Teachers are aging, the number of qualified teachers in rural areas is declining, and the low salary level has diminished teachers' morale. All of these trends call for substantial changes in the education financing system through the local governments' involvement and a more motivated school management.

Equity in the Allocation of Education Funding

A funding system is equitable if it deals with disparities in cost and income. First, the cost of providing education varies across schools, depending on factors such as the class size, geographic location, ethnicity, and special education needs. Equitable financing may involve higher per-student allocation for students in rural schools with smaller classes, for example. Second, income is an issue because local government revenues are a marginal resource for education. Because state funding remains a dominant source of income, through direct expenditure or intergovernmental transfers, the way in which its contribution is distributed is fundamental to equity.

The Albanian funding system uses historic costs and incremental adjustments. Clearly, this system cannot ensure equity in the distribution of funds for education.

Another aspect of inequality in the system is the variation in providing services. New schools built mostly in larger towns and cities have sports facilities, libraries, or offer extracurricular activities. Old schools usually do not offer such facilities, and in rural areas extracurricular activities are very limited.

In regards to school operation and maintenance, variations in the services provided among regions are a natural consequence of decentralization without a concrete set of standards. The absence of national standards forces local governments to provide the service according to their priorities. This would not be a constraint if they had enough resources. However, as described above, school maintenance is low on the list of local priorities. Additionally, with no property rights over school facilities, local governments have little incentive to be motivated and responsible for maintaining education facilities.

Inequalities in funding should be considered an important issue in the process of decentralizing school responsibilities. The transfer of responsibilities should be followed by adequate and transparent school financing schemes. As mentioned above, the general

transfer pool's determination and distribution variables do not take into account the special needs of different geographic areas. Thus, the decentralization and delegation of current functions in education are based on the principles of shifting the administrative burden from central to local governments.

Efficiency in the Allocation and Use of Education Resources

The economic idea of efficiency represents the ratio between what is brought and invested into the system, and its results. This concept, however, must be redefined in the area of education. A more efficient redirection of the existing sources of financing, and the expectation of educational institutions to provide greater value for money, represent the reality of the majority of the modern education systems. An education system may be called "efficient" if it attains the maximum level of results using a minimum level of resources.

From this point of view, a distinction should be made between internal and external efficiency. Internal efficiency looks at student–teacher ratios and dropout rates, while external efficiency refers to the education outcomes as they are produced by given education resources (or less education resources are used in producing the same amount of education outcomes).

Internal Efficiency

The main question, when discussing internal efficiency, is how good is the system in retaining the students in the schools once they enroll. In Albania, the student–teacher ratio has been decreasing, from 20.22 in 1990, to19.56 in 2003. These changes, however, are not policy driven but the consequence of an important internal population migration from the rural to the urban areas, and from the northern part of the country to the south.

The migration dramatically affected student enrollment which, subsequently, affected the student–teacher ratios. Between 2004 and 2007, the number of primary school students fell by nearly 10 percent. More than 16 percent of the total decrease in school enrollment occurred in rural schools. In some regions, the decline was much higher, such as the rural schools in the Diber and Tirana areas, where one in four students left the school. On the contrary, the student population in the urban schools in those regions grew by more than half.[9]

The initial result was overcrowding in schools and an increase in class sizes above accepted OECD ratios. The average class size for primary education in Albania is still in line with OECD average of 21.9. The average class size, however, for secondary education

is 35, which is well above the OECD ratio of 24. There is also significant variation due to migration patterns. For primary schools, the average class size at the level of regions varies from 16 students to 33 students. For secondary schools, this variation is from 29 students to over 40 students.[10]

Table 14.
Student–teacher Ratios

Education Levels	School Year						OECD 2003–04
	1990–91	1997–98	2000–01	2001–02	2002–03	2003–04	
Public Education							
Pre-university Total	20.22	18.36	19.11	19.95	19.50	19.56	n/a
Pre-primary	22.95	19.54	21.46	22.18	21.49	21.38	15.50
Primary	19.34	18.58	18.90	18.93	18.77	18.76	16.30
Secondary	21.22	16.48	18.65	20.56	21.62	21.96	13.90
Private Education							
Pre-university Total		7.05	12.95	11.95	11.50	12.66	
Pre-primary		4.44	16.35	17.29	17.38	18.04	
Primary		7.02	15.78	12.47	11.70	13.08	
Secondary		24.15	8.55	8.98	8.96	10.41	

The limited number of students in rural schools has made it impossible to increase the class size by combining classes. In rural areas, there are also other specific factors that impede class consolidation, such as large distances between villages, poor school infrastructure, and unsuitable transportation. Under these circumstances, the ability to reduce the costs in the rural areas is severely constrained. On the contrary, in urban areas, over half of primary schools and close to 30 percent of upper secondary schools operate with multiple shifts, compared with only 20 percent of rural schools who use shifts. This suggests an intensive use of physical resources and lower per-student costs.

School size is another indicator of how efficiently schools adjusted to reduced enrollment in the 1990s. Small schools—in some cases with just one class per grade—have classes below the norm in size and, in some cases, adopt multi-grade teaching, which is appropriate for the first cycle of primary education. Pre-primary schools are smallest, both in number of students and number of classes, ranging from an average two to four classes per urban school, to just one class in rural schools. Primary schools tend to be larger, about twice the size of secondary schools. The average school size also varies

greatly across districts, with schools in the rural north and south being much smaller than elsewhere in the country.

Although the number of students has fallen, the average school size has not significantly changed—except for rural and secondary schools, which have fewer classes. Secondary schools in the rural areas with only one class per grade allow few efficiency improvements from combining classes. Moreover, they are expected to have future reductions in enrollment, which will reduce the student–teacher ratio and increase costs per student.

External Efficiency

The current Albanian school system does not have mechanisms to control spending in schools. First, because both school directors and local governments have practically no financial authority, they do not make any relevant contribution in the efficient use of resources. The involvement of management and teachers in developing national and local policies and allocations is occasional and comes only in the form of sharing experiences or debating in official forums.

In regards to population migration and demographic changes, local initiatives may have a significant impact on external efficiency. One workable approach might be the mutual cooperation of local government units in sharing school facilities or providing other school services.

Another approach—in terms of financing arrangements—could be financing the local government via block or general grants rather than earmarked funds. Worldwide, there has been a move towards this approach.[11] It is recognized that financing by general grants leads to a more efficient use of resources. and requires less in terms of centralized supervision of particular tasks. Albania is far behind other countries in this respect, as the power of local governments to use resources based on their own priorities in education is almost nonexistent: 92 percent of their revenues are earmarked transfers, 5.5 percent are general transfers, and 2.4 percent are own local revenues. Consequently, local governments in Albania are much more dependent upon transfers from the central government, and education is subsequently affected.

CONCLUSION

Summary of the Strengths and Weaknesses of the Overall System for Financing Education

Real resources allocated to education have been decreasing. Tight restrictions on education resources have seriously slowed down students' participation in schools, as well as the schools' capacity to provide quality education. Education spending, as a share of GDP, fell to 2.8 percent in 1998, then climbed to a little below 3.1 percent by 2006. With this degree of underfunding, higher quality in education is a challenging target.

Most of the educational functions remain with the central government, while most of its financing is made primarily through earmarked transfers. The only clear decentralization step is the provision of school operation and maintenance services by local governments. This is problematic because of the severe underfunding and excessive regional differences. Some of the causes include: school ownership, which remains with the central government, and the weaknesses of the general transfer distributed by formula, which is not serving its intended purpose. As a result, in local governments with low revenue capacity, the share of the local budget allocated for school operation and maintenance is decreasing.

The ownership of school facilities is another difficult issue. While it has been officially decided that all municipalities will own the facilities of the public schools within their territory, the actual transfer of ownership is extremely slow, and most of the facilities are still owned by the central government. Moreover, this transfer is restricted to the buildings. The land on which school buildings are located will remain the property of the republic. This means that after closing a school, the municipality will be unable to sell the property.[12]

The investment policy has improved gradually in the last three years. However, there are still some areas that need improvement: adjusting the criteria for the selection of investment projects that would accommodate the needs of the education sector, improving the quality of the investment projects, and better controlling the investment efforts funded by different donors.

The restructuring of the education sector during the transition to a market economy has not addressed the demographic shifts in Albania, which, in turn, affect school enrollment. The drop in enrollment reduced the number of teachers, the number of classes, and the number of schools, though the reduction in number of teachers was less than proportional to the reduction in number of students. The student–teacher ratio declined, but only in rural schools. Conversely, in the urban schools, this ratio remains much higher than similar ratios in developed economies. We can draw the conclusion

that consolidating schools and reducing the number of teachers are two key objectives for Albanian schools. Several constraints, such as the geography of the country, poor physical infrastructure, and the lack of incentives for local governments and school management are serious constraints to contend with.

Some Recommendations for Improving Education Financing

No reform of education will ever have an impact unless the level of public spending on education increases. Aside from spending more on education, better and clearer priorities should be identified, such as:

- The school network should be adjusted in order to cope with demographic changes.
- More financing sources should be allocated and spent on non-wage expenditures (including maintenance and teacher training) and investments. This is vital to increasing the quality of education as a whole.
- More education responsibilities should be transferred to local governments and schools. The Ministry of Education should be dealing only with education development policies and national standards, and should provide adequate funding across the country. More discretion on expenditure management should be left with the lower administrative levels in education. Decentralization will bring decisions closer to the users of education services, thereby better adapting allocations to local needs. It will also empower and create a sense of ownership among school-level stakeholders, and increase transparency and accountability at all levels.
- The small size of local governments in Albania suggests that the assignment of responsibilities should be done asymmetrically. Except for the large cities, the assignment of responsibilities for the remaining local governments should rely on the principle of cooperation between cities and regions. The good results from previous decentralization attempts show that partnerships work.
- The transfer of functions should be coupled with changes in education financing policies, so that decentralized responsibilities are fully covered financially (or at a minimum, negotiated with local governments). School operation and maintenance should be provided by local governments, based on national standards, which should take into account special needs for different geographic areas and categories of population. Per-student costs should be calculated and used in the design of the allocation formula. This method of allocation was already introduced in a number of transition countries, such as Serbia, Poland, Hungary,

and Macedonia. The allocation to individual schools can be adjusted based on specific local factors such as: difficult climatic conditions, poor environment, the existence of small rural schools, etc. The allocation should be made to the local governments and the latter should be required to involve school management during the budget allocation decision-making.

- The allocation of funds to each local government should be made based on the criteria which assure the implementation of national standards, to ensure equity.
- The investment pool and its appropriation should be treated separately from recurrent spending, and determined based on clear rules created in consultation with local governments. Options to be considered for determining the pool for education investments could be: (1) listing priorities based on a situation analysis by school categories and geographic areas; (2) listing priorities based on the strategy for achieving national education standards; or (3) linked to specific national tax-revenue sources. The distribution could be made by formula or investment proposal rankings based on predefined criteria, and involving local government representatives in the proposal selection process.
- Wages and salaries are the largest component in education funding and should be treated carefully. In Albania, the allocation should remain with the central government, but some marginal powers could be delegated to the local governments. These powers might include the reallocation of wages and salaries funding (within limits), the delegation of authority to local governments for changing the number of teachers, and their hiring based on the national professional requirements.

SOURCES CITED

Barrow, Michael (1998) "Education after Communism—The Experience of Central and Eastern European Countries." Brighton School of Social Sciences, University of Sussex, Falmer, Brighton. November.

Geremia, Palomba and Milan Vodopivec (2001) "Financing, Efficiency and Equity in Albanian Education." Washington, D.C.: World Bank Technical Paper. June.

Herczyński (2007) Current Problems of Education Finance in Albania. Forthcoming.

Ministry of Education of Albania (2004) National Strategy on Pre-university Education Development. June.

Ministry of Education of Albania (2002–2004) Reports and Information.

Ministry of Finance, Ministry of Local Governments, Ministry of Education (2005) Ordinance on Implementation of School Investments Budget. February.

Republic of Albania (2000) Law on Organization and Functioning of Local Governments, No. 8652. July 31.

Xhillari, Lindita and Ylli Cabiri (2005) Education Sector Public Expenditure Review. Washington, D.C.: The World Bank.

NOTES

1 This explains the sudden increase in the number of students attending general secondary education, from 28 percent in 1990–91 to 79 percent in 1995–96.

2 In fact, there are 37 districts, though for the regional capitals the directorate plays the role of the district office.

3 Namely, the Institute for Curricula and Standards, the Center for Training and Qualifications, the National Center for Assessment and Examination, and the Accreditation Agency.

4 Funds for salaries are allocated by the MoE through a categorical grant, thus local governments have no discretion over spending.

5 Education expenditure as a percentage of GDP for other countries: 7.5 percent for Slovenia; 5.8 percent for Greece; 4.3 percent for Bulgaria, and 3.6 percent for Macedonia. Source: country reports at the conference on education finance in South Eastern Europe, organized by OSI/LGI in Sofia, Bulgaria in March 2005.

6 For a more detailed discussion, see Herczyński (2007).

7 In the case of smaller governments, however, the fact that investments are selected and financed by the central government continues to be a strong disincentive to local governments to invest their own resources in the maintenance of capital assets.

8 The assessments were generally financed through foreign technical assistance.

9 For a more detailed discussion on internal migration, please see Herczyński (2007).

10 Herczyński (2007).

11 Article 9 of the European Charter of Local Self-government states that, as a general rule, block grants are to be preferred to earmarked ones.

12 Based on discussions with an expert of a USAID-funded LDGA project in Tirana.

APPENDIX

Table A1.1
Indicators of Spending per Student and Teachers Salaries

Indicators	2002	2003	2004
Spending per student/GDP per capita	0.09	0.10	0.11
Teachers salaries/GDP per capita	0.93	0.91	0.83

Table A1.2
Share of Secondary Education Enrollments to Graduates from Primary Education (Percent)

Categories	1999	2000	2001	2002	2003
Secondary Education Total	61	63	64	66	71
General	50	52	52	55	57
Professional	11	11	12	11	14

Table A1.3
Class Size in 2003–2004 (Student/Classes)

Primary Education	Albania	OECD
Primary Cycle	22.3	22.1
High Cycle	26.0	23.6

Financing Public Education in Bulgaria[1]

Plamen Danchev and *Stefan Ivanov*[2]

Executive Summary

National education policy in Bulgaria is formed and implemented by the Ministry of Education and Science (MoES) and is supposed to respond to the demands of the economy and other sectors of society as well as students themselves. But several areas of education need assistance and modernization, including equal access to ensure the integration of disadvantaged groups, tightening the gap between the legal and practical spheres of education, management of financial models, teaching and infrastructure, and the development of a new approach involving all the stakeholders in the education system. The Bulgarian system is striving to place students at the center of the education system by giving them more choices.

Many goals are within reach and do not require a complete redesign of the education system like: updating curricula and new methods of training to develop skills (languages, information technology) for application in a rapidly changing workplace; improving the structure and effectiveness of the education sector by making more teachers available to students and enforcing the obligation to compulsory education; invigorating local schools through the decentralization of education management and more opportunities for teacher training; and implementing a financing policy whereby funds follow the student in a bid to eliminate the unfair economic advantages of some economic groups. Despite these achievable goals outlined in MoES policy, Bulgaria faces severe budgetary constraints and hopes to design solutions that empower schools without bankrupting its treasury.

The latest data indicates that Bulgaria has seen a 14-percent fall in the number of primary and secondary schools since 1999 as economic restructuring and a declining number of students has led to closures across the education system. Schools for children with special needs and rural schools have been especially effected, though the mix of general education and vocational schools has remained much the same. Despite this trend to integrate and close schools, whatever their type, the student–teacher ratio has remained fairly constant, at around 13 students per teacher for general education and just under 11 students per teacher in vocational institutions.

Typically, school directors have been appointees of the MoES and its regional inspectorates and this has an impact on their efficacy and responsibilities, but a pilot program in ten municipalities has appointed school directors through a new body, the school council, composed of fewer central government officials and more local administrators, teachers, and parents. The expansion of this program across Bulgaria is expected for 2009 and school directors' discretion has also been extended to decisions about labor costs, maintenance,

teaching hours, specific salaries, and number of staff—decisions previously made by the central government. Own source local funding has also been set aside to improve teachers' salaries and accountability to the local community. Local authorities may also open or close a school, while enrollment is subject to the rules of MoES. Curriculum development falls into the brief of the Regional Inspectorates, along with oversight, and school ownership remains with the central government, but school maintenance is paid by local authorities. Who administers what in the Bulgarian education system is not always clear and school management is a mismatch of local and central responsibilities that often lead to decisions being made without sufficient funding to implement them.

Bulgaria lags behind other EU countries in terms of education spending as a percentage of GDP (3.9 percent compared to 5.1 percent, respectively). Since 2007, Bulgaria uses a quasi-voucher, per-pupil expenditure standard that gives schools more leeway in how they allocate funds. In addition to the funds received from the budgets of several ministries, they may also raise money through rentals, services, and donations to spend at their discretion. Central government funds are allocated for salaries, some maintenance, scholarships, and capital investments. Further funding is made available through subsidies for teacher remuneration, student transport, capital investments, and textbooks for first-graders.

This has been matched by a significant change to the budgeting system, whereby the budget is delegated to local authorities, and has lead to a more transparent and fairer distribution of funds. Nonetheless, Bulgaria lacks a coherent quality-monitoring system, has no external evaluation system of students nor schools, does not stress accountability, does not encourage competition among schools, has not fostered much in the way of continuing teacher training, and still suffers from a poor graduation rate for secondary students.

Fiscal decentralization in 2004 brought about a broad range of government reforms aimed at regulating the relationship between the central government and local governments in Bulgaria. A Delegated Budget System (DBS) has been implemented in over 30 municipalities, with more slated to join the new program. Within this system, the municipality transfers the right to make independent decisions about administration, finance, and organization to the school authorities and they are held accountable for the results of these decisions. Local governments, once direct managers, now are coordinators, trainers, and supervisors to schools. Within DBS, the municipality and school directors agree on the mechanism of allocating resources among schools; schools become secondary budget holders, compile their own budgets, and have their own bank accounts; and schools have the authority to manage property such as canteens and vacant premises and to raise additional revenue. As a consequence, schools have reported better performance, deeper involvement by local stakeholders, more transparent funding, better equity, reduced costs and more funds,

better efficiency, autonomy to purchase innovative teaching supplies, and a better and more efficient relationship with the local authority. An assessment of the true impact of this budgeting innovation has yet to be in place to answer whether savings are the result of poorer service quality or core teaching has been cut to expand business opportunities.

Despite these positive outcomes of education finance reform in Bulgaria, some further steps are recommended, for example, expanding the pilot programs decentralizing responsibilities to local schools, no matter their type; increasing own revenue sources (like local fees and taxes) for municipalities to fund education; and transferring more powers from the central to the local level in the areas of re-allocating financial transfers from the state received on the basis of the costing standard.

The main conclusions of this chapter support the idea that the results of reform towards fiscal decentralization indeed will be a clearer distribution of responsibilities between different authorities, a more fair allocation of financial resources between municipalities, and a higher degree of sustainability and stability. At the same time, reforms generate new problems, for example, by taking away from the municipalities their power to allocate financial resources according to local priorities. Also, reform at this stage is unable to stop the declining quality of education.

INTRODUCTION

Principles, Aims, and Priorities of the National Education Policy[3]

National education policy in Bulgaria is formed and implemented by the Ministry of Education and Science. Ensuring a high quality of education is a national priority that requires the concerted efforts of Bulgarian society. Education policy is responsive to changes in the external environment, the needs of the economy, and other sections of society. Its ambition is to preserve the traditional values that support the education system and, at the same time, encourage its advancement.

Several principles underpin the process of modernizing Bulgarian education such as: equal access to the education system to ensure the integration of all disadvantaged groups; quality of education reflecting the quality of the legal framework; the management and financing models; teachers and infrastructure; active partnership between all stakeholders like governmental institutions, teachers, parents, trade unions, and nongovernmental organizations; competition between schools and the quality of the teaching they offer regardless of their form of ownership; and the openness needed to transform education into a flexible and forward-looking system responsive to changes in the economy and the requirements of the labor market in the EU.

The main policy directions in modernizing Bulgarian education include quality education for all, based on the assumption that the education system must preserve traditional values while, at the same time, seek to align itself with European and international standards. Concurrently, a link should be established between education, science, and economic development priorities in Bulgaria. Equally important is long-term planning and resourcing to ensure a sustainable development of the education system. Nevertheless, focusing on the student is the highest priority; therefore, an important goal is to design the educational process in such a way as to teach students the skills they will need for professional and personal fulfillment. This is, in other words, placing the students at the center of the education structure as a way of giving them more flexible choices.

According to the same policy document, in order to achieve the above goals, the following measures need to be taken in a few priority areas:

- Improve the quality and efficiency of the learning process through:
  - Updating curricula;
  - Introducing new methods of training which assign an active role to students;

  - Foreign language learning as a priority;
  - Introducing early computer training and information technology in the teaching process at all levels;
  - Introducing modern and objective methods of assessing students at the end of each stage and level of education;
  - Making it possible to apply acquired knowledge and skills in a professional environment.
- Improve the structure of the education system through:
  - Linking the constitutional requirement for compulsory education until the age of 16 with the respective education level;
  - Allowing choice of specialized or professional education, or entry into the labor market after completion of compulsory education;
  - Establishing the transition from one level of education to another, and from one school type to another after covering uniform education standards;
  - Designing flexible forms of teaching to limit the number of students who drop out early or are not covered by the education system;
  - Promoting and encouraging life-long learning.
- Develop the education management system through:
  - Regulating the main relations in education by means of legislation;
  - Decentralizing the education management system by delegating to schools authority in financial matters, human resource management, and innovations in the education process;
  - Developing viable partnerships in school management by granting rights and responsibilities to parents and businesses;
  - Ensuring training opportunities for teachers and linking good teaching results with moral and financial rewards as a means of raising the economic and social status of Bulgarian teachers.
- Link financing with the quality of the education product through:
  - Applying a three-component model of financing secondary education based on uniform standards of maintenance per student, program financing, and co-financing by the school owner;
  - Introducing the principle of the "money follows students" as a means of reducing and gradually eliminating the correlation between a family's economic status and access to quality education;

– Long-term link between resourcing the system and the quality of education;
– Introducing a system of quality assessment indicators, comparable to the system used in the EU, to ensure that the public and the labor market are informed about the quality of the education offered by each school.

Changes to School Structures in Recent Years

The Bulgarian education system consists of primary (first to fourth grade), pre-secondary (fifth to eighth grade), and secondary education (ninth to thirteenth grade). Pertaining to the type of education, there are general education and vocational training schools. Education is compulsory until the eighth grade and is free in the public schools for all 13 grades.

Table 1.
Number of Public General Education Schools, Students, and Teachers

School Year	Total Schools	Teachers	Students	Student–teacher Ratio
1999–2000	3,011	65,885	887,213	13.47
2000–2001	2,843	63,792	867,354	13.60
2001–2002	2,812	63,261	839,518	13.27
2002–2003	2,720	61,354	825,668	13.46
2003–2004	2,696	60,338	795,919	13.19
2004–2005	2,663	60,099	787,120	13.10
2005–2006	2,635	58,483	778,747	13.32
2006–2007	2,601	56,084	771,505	13.76

In the 2006–2007 school year there were 2,601 public general education schools, or 14 percent (410 schools) less than the number of 3,011 registered in 1999–2000. Their distribution by level of education is determined by the age structure of the students, which accounts for the differences in the levels of education they cover. As Table 2 shows for 2006–2007, there were 252 primary schools, 20 pre-secondary, 1,768 medium (grades one to eight), and 154 secondary (grades nine to thirteen). Some schools cover different levels—22 are for students from grades five to thirteen and 385 from grades one to thirteen.

Table 2.
Public General Education Schools by Type

School Year	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Total	3,011	2,843	2,812	2,720	2,696	2,663	2,635	2,601
Primary I–IV	438	374	368	321	311	295	277	252
Medium I–VIII	1,947	1,845	1,829	1,783	1,778	1,772	1,769	1,768
Pre-secondary V–VIII	23	23	22	22	22	21	20	20
Secondary IX–XIII	158	163	160	161	165	162	159	154
Schools V–XIII	47	43	40	34	31	27	25	22
Secondary schools I–XIII	398	395	393	399	389	386	385	385

There were 97 public special schools for children with chronic illnesses and permanent disabilities in 2006–2007, or 49 less compared to the 146 special schools that existed in 1999–2000.

Table 3.
Number of Public Special Schools, Students, and Teachers

School Year	Total Schools	Teachers	Students	Student–teacher Ratio
1999–2000	146	2,597	15,984	6.2
2000–2001	138	2,268	16,346	7.2
2001–2002	136	2,333	15,631	6.7
2002–2003	132	2,229	15,252	6.8
2003–2004	127	2,079	14,366	6.9
2004–2005	114	2,070	13,530	6.5
2005–2006	108	1,812	12,241	6.8
2006–2007	97	1,628	10,365	6.4

In 2006–2007 the total number of students in the general education school system was 771,505, of which 35.8 percent were enrolled in the primary level, 36.9 percent in the pre-secondary level and 27.3 percent in the secondary level.

Table 4.
Students in Public General Education Schools

School Year	1999–2000	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Total	887,213	867,354	839,518	825,668	795,919	787,120	778,747	771,505
Primary I–IV	385,288	366,421	341,963	325,885	307,691	298,729	292,662	276,122
Pre-secondary V–VIII	356,938	355,918	348,974	338,912	321,233	301,566	294,260	285,068
Secondary IX–XIII	144,987	145,015	148,581	160,871	166,995	186,825	191,825	210,315

The number of teachers in the general education school system in 2006–2007 was 56,084 with a 13.8:1 student–teacher ratio compared to a ratio of 13.2:1 in 2003–2004 and 13.5:1 in the 1999–2000 school year.

Table 5.
Average Number of Students per Teacher across Stages of Education

School Year	Preschool Education	Primary Education	Pre-secondary Education	Secondary Education
1999–2000	11.30	16.80	12.10	11.60
2000–2001	11.40	17.70	13.00	11.30
2001–2002	11.40	16.80	12.80	11.70
2002–2003	11.80	17.20	13.30	11.90
2003–2004	11.50	16.80	12.90	12.10
2004–2005	11.77	15.10	11.28	11.77
2005–2006	12.40	15.26	11.40	12.10
2006–2007	12.61	15.30	11.50	12.70

Public vocational training and education is provided by 454 schools distributed as follows: 19 applied and fine arts schools; 430 vocational training schools (*technicums* and *secondary technical schools*); and five professional schools. The total number of students was 197,984 and teachers was 18,893. The student–teacher ratio in 2006–2007 was 10.5:1 compared to 10.9:1 in 2003–2004 .

Table 6.
Number of Public Vocational Schools, Students, and Teachers

School Year	Total Schools	Teachers	Students	Student–teacher Ratio
1999–2000	545	17,792	192,550	10.8
2000–2001	516	18,006	191,246	10.6
2001–2002	506	18,129	191,328	10.6
2002–2003	504	18,809	202,512	10.8
2003–2004	496	19,362	211,386	10.9
2004–2005	457	18,906	198,765	10.5
2005–2006	443	18,714	196,322	10.5
2006–2007	454	18,893	197,984	10.5

In the 1999–2007 period the number of students fell by 13 percent in the public general education schools and rose by three percent in the vocational training schools. A similar tendency may be observed for teachers—a 15 percent drop in general education and a six percent increase in vocational training. Given the rising number of students in vocational schools, there is obviously a process of school integration underway. The number of students per vocational school has risen by 20 percent since 1999. The vocational schools dedicated to economics, accounting and management; tourism and catering; architecture and construction account for the majority of student enrollment in vocational schools and are perceived as a good choice for secondary education by students and parents alike. This explains, to great extent, the upward trend in enrollment figures for the last 10 years.

However, the above changes account for a less favorable student–teacher ratio in the general education schools and its preservation, even some improvement, in vocation training.

Schools are divided into public and private by forms of ownership. The public schools are state and municipal. The majority of general education schools are municipal while the vocational ones are owned by the state. There are, however, exceptions. For example, the municipalities own and fund 10 vocational training schools, and the Ministry of Education and Science is responsible for six general education ones, of which two are secondary general education schools, three are state high schools for the eighth to twelfth grades, and one is a middle school. The state schools are mainly under the umbrella of the Ministry of Education and Science, but there are also secondary schools under the Ministry of Culture, the Ministry of Agriculture and Forestry, and the Ministry of Youth and Sport.

Private education in Bulgaria is a relatively new concept that started to develop in 1992–1993 when the first private general school appeared. In 1994–1995 the first private vocational and professional schools were established. In 2006–2007 the number of private general schools in Bulgaria stood at 60 (2.5 percent) and the students enrolled were only 0.8 percent of all students. For vocational training these figures are slightly higher—52 private vocational schools (10.3 percent) and 1.8 percent of students.

In terms of structure, there has been a stable upward tendency of student enrollment in the private preschool, primary, and middle schools (by 42 percent, 22, and 21 percent, respectively) and a modest increase in private secondary schools (by 11.1 percent) over the period 2004–2007.

Tables 1 to 5 show that the negative demographic processes that are responsible for the reduction in the number of students and school closures and that have effected general education as well. The worst effected is the municipal education system. As can be seen, the period from 1999–2007 has seen the closure of 410 general education schools, 361 of them in rural communities. Typically, the closed schools were the only ones in the village. Children have no other option but to attend what is referred to as "regional schools." On the one hand, this means that students have to commute or live away from their families. On the other hand, they have access to better school facilities and more qualified, competent teachers.

However, even though students may receive better education, and despite the significant number of school buses procured by the Ministry of Education over the last three years, ensuring children's travel on unpaved rural roads is problematic and usually leads to the migration of whole families. That is why the closure of rural schools is contributing to the depopulation of villages. In 2007, such schools were given the statute of "protected schools," providing they meet certain criteria. The protected schools are not subject to closure and are funded using a specific funding allocation standard. In 2007, the number of protected village schools was 75.

Allocation of Responsibilities between Central and Local Authorities

The allocation of administrative powers and responsibilities for managing schools can be analyzed from the point of view of: staff—payment and qualification; schools—opening and closing; maintenance; student enrollment; choice of curricula; and oversight and monitoring.

Directors of state schools are appointed by the Minister of Education and Science (with the exception of the applied and fine arts schools which are under the Ministry of Culture). The directors of municipal schools are appointed by the head of the Regional Inspectorate on Education. The regional inspectorates are deconcentrated structures of

the Ministry of Education and Science. The appointment is made through a competition that is organized by the ministry. The selection panel typically consists of five members—two from the Ministry of Education and Science, two from the Regional Inspectorate, and one from the municipality. Clearly, the municipal representative is little more than an observer. It is not uncommon for that person to be designated by the Regional Inspectorate.

As of 2006, based on an agreement between the Ministry of Education and the National Association of Municipalities in the Republic of Bulgaria, the directors of all schools in 10 pilot municipalities are appointed according to a new procedure and by a new structure—the school council. The school councils consist of one representative of the regional inspectorate, one representative of the municipal administration, two representatives of the pedagogical staff of the school, and two parent representatives. The school council is responsible for evaluating the performance of the school director; it proposes the dismissal or appointment of the school director, and the proposal is endorsed by the Regional Inspectorate. It is envisioned that the school councils become mandatory structures for all schools in Bulgaria in 2009, after adequate analysis of the outcomes from the pilot phase and amendments (if necessary) to the structures and their functions are made.

Teaching and non-teaching staff are hired and fired by the director of the school within the approved numbers. The central level sets the number of staff by municipalities and the latter allocate it among the schools.

The power to determine salaries is established in regulations on salaries in secondary education set by the Minister of Education. The financing authority sets an average gross salary for the school and this becomes the framework in which the director negotiates individual salaries of teaching and non-teaching staff. An individual salary may not be less than the salary for the position established in the regulations. For state schools, the financing authority is the respective ministry, and for municipal schools it is the municipality that receives the subsidy for education activities from the central budget as part of the intergovernmental transfer system. Average gross salary growth is determined annually under the Central Budget Act.

As of 2008, the strict central regulations on staffing, class sizes, salaries, and other operational education expenditure determinants have been relaxed to the extent that they have mainly an advisory nature. A new upper limit for class size has been introduced—32 students per class instead of the old maximum level of 25 students per class. These changes have given extended powers to the school directors, who determine the number of staff, the specific salaries, and the individual teaching hours of the teachers. Thus, the school directors are mandated to determine what portion of the school budget will go for maintenance and what for labor costs.

The Ministry of Education funds the teacher training required by changes in the curriculum. The municipal councils may also vote on the financing of teacher training

to the extent permitted by the municipality's own revenues. Since 2005, additional funding for teacher training, equivalent to 0.8 percent of the total amount of their salaries, is provided under the Collective Labor Contract for secondary education in state and municipal schools.

Schools are licensed or registered by an order of the Minister of Education and Science. This rule does not apply to the applied and fine arts schools under the Ministry of Culture.

The recommendation to open or close a school is made by the funding authority (local government for the municipal schools) and submitted to the Regional Education Inspectorates. The latter checks the circumstances, prepares an opinion, and the recommendation is then submitted to a committee appointed by the minister for education and science. The committee, composed of representatives of the Ministry of Education, considers the recommendations, examines the attached documents, and prepares a recommendation to open or close a school that the minister then approves in an order.

The maintenance of school buildings and the current operating expenses are covered by the owner, i.e., the respective ministry for the state schools and the municipality for the municipal ones.

Student enrollment is subject to an order by the minister of education, who coordinates with the line minister. The minister of education also approves the number of students in the municipal schools. Student enrollment in the arts schools is regulated by the minister of culture. The Ministry of Education and Science regulates the maximum number of students in a class. This mandate extends to the municipal schools as well.

The curricula for compulsory and specialized education courses, and for compulsory vocational training are approved by the minister of education and science. The curricula for elective courses are coordinated with the experts in the Regional Education Inspectorates and then are approved by the director of the latter. The curricula for optional courses in a school are also approved by the director.

The powers of schools in setting the curriculum are limited to elective and optional courses. Whether a course will be taught depends on the interest of students and the ability of the school to provide the necessary human and material resources. These courses are used by schools to promote students' interests in science, arts, and sports.

Schools are overseen and monitored by the Ministry of Education and Science and the Regional Inspectorates (deconcentrated structures of the Ministry of Education). The oversight functions of the municipalities are directly related to compulsory education until the age of 16, and school financing and property. They exercise a preventive and follow-up control of school expenditures, and oversee the use and lease of municipal property. Until the introduction of the school councils, they had limited control over the hiring of staff. The school councils now ensure equal participation of municipalities

and regional inspectorates in the decision-making process related to issues of staff recruitment and the hiring or firing of school directors.

The municipality has control over staff employment. It has a stronger preventive and follow-up control over spending, and the use and lease of municipal property.

Despite the significant progress in the transfer of responsibilities from the central to the local level, the current distribution of administrative powers described above has several disadvantages:

- There continues to be a mismatch between administrative subordination and the financial responsibility of the directors of municipal schools. As the mayor of the municipality is not the employer of the municipal school director, the latter cannot be held responsible for the ineffective management of municipal budget funds by the financing authority (the municipality).
- Central authorities frequently make decisions without ensuring that the costs of implementation are covered.
- There is no national and local system for measuring and monitoring the quality of education services. The education process is still based on planning and inputs, i.e., numbers of schools, teachers, and students.

FINANCING FOR SCHOOLS

As can be seen in Table 7, Bulgaria is currently lagging behind other countries in the EU in the share of education of GDP. In 2006, Bulgaria spent 3.9 percent of its GDP on public education as opposed to the EU25 average of 5.1 percent.

Table 7 shows a relative decrease in the share of education in GDP and an increase of its share in the Consolidated State Budget. This is mainly a consequence of the expenditures for education rising at lower rates compared to GDP (most notably in 2001, 2005, and 2006) and at higher rates in relation to public spending as a whole. There is also an overall upward trend in the share of local education expenditures, which is partially accounted for by the transfer of some education activities from central to local funding (e.g., funding of special schools). One can draw the conclusion that Bulgaria has managed to reach a relative amount of stability in the sector and the public services provided by the central and local authorities.

Table 7.
Main Financial Characteristics of Education in Bulgaria

	2000	2001	2002	2003	2004	2005	2006
GDP (BGN million)	26,752.8	29,617.7	32,335.1	34,410.2	38,822.6	42,797.4	49,090.6
Consolidated state budget (BGN million)	11,334.3	12,096.5	12,732.5	14,068.8	15,199.0	16,657.3	18,275.6
Public expenditures for education (BGN million)	1,130.4	1,191.4	1,353.4	1,504.7	1,635.8	1,814.8	1,941.1
Including local spending on education (BGN million)	626.2	652.9	782.1	852.2	942.2	987.3	1,085.4
Share of local expenditures in the public expenditures for education (percent)	55.40	54.80	57.79	56.64	57.60	54.40	55.92
Share of expenditures for education in GDP (percent)	4.23	4.02	4.19	4.37	4.21	4.24	3.95
Including local expenditures for education (percent)	2.34	2.20	2.42	2.48	2.43	2.31	2.21
Share of expenditures for education in the consolidated state budget (percent)	9.97	9.85	10.63	10.70	10.76	10.89	10.62
Including local expenditures for education (percent)	5.52	5.40	6.14	6.06	6.20	5.93	5.94

Source: Ministry of Finance.

Role and Methods of Government Financing

In 2004, new rules on the standard annual maintenance of children and students in the state and municipal kindergartens, schools, and support units were adopted. These rules introduced two separate expenditure standards. The first one defined the overall maintenance expenditure level for the school system in each local government, using formulae with objective criteria and adjustment factors to reflect differences in the school system among municipalities. The second standard defined staff expenditures and mainly replicated the complex methodology for staffing stipulated in the regulations of the Ministry of Education. While the maintenance-cost standard provided some built-in incentives for higher efficiency and effectiveness, the staffing standard defining

the larger portion of education spending legitimized the overstaffing patterns typical of the ministerial regulations.

2007 saw the adoption of a new quasi-voucher system that unified the existing two separate standards (for maintenance costs and for staffing and labor costs) into a single per-pupil expenditure standard with no mandate regarding the staffing level. The design of the new costing standard stimulates the financing authority (ministries and the local governments) to adopt their own pattern for the allocation of funds across schools and the existing examples of formula funding of schools in local governments with a delegated budget system appeared to be an appropriate model to follow. The only centrally imposed limitation related to the application of the new standard is that the local formula for the allocation of funds across the schools in the individual municipalities be based on the number of students in the school with mandatory weight of 80 percent. The remaining 20 percent should be allocated according to criteria and factors agreed upon by the local administration and the local union of school directors.

Financing for State Schools

State schools are financed from the annual budgets of the Ministry of Education and Science, the Ministry of Agriculture and Forestry, the Ministry of Culture, and the Ministry of Youth and Sport.

The state schools are secondary budget holders (with the respective ministry as the primary one) and they have their own budgets. The sources of revenue are:

- renting out state or municipal property;
- renting out teaching or sports facilities, machines, and equipment owned by the kindergarten, school, or support unit;
- agricultural lands and forests;
- disposal of compensation vouchers or bills;
- sale of products and services produced in the course of practical training;
- training and creative work, educational, and other services laid down in an order issued by the minister of education and science;
- donations, bequests, fees, and other sources.

Own revenues are generally used by the school for maintenance or the upgrade of school infrastructure.

State school expenditures are allocated on the basis of the approved education budget of the financing authority, as well as a set of criteria. The main criteria, built in a fund allocation formula for each type of school (vocational, professional or special), are:

- for salaries and related social security payments—the approved staff size and the average gross salary of the schools, additional remuneration of staff and the income policy for the year;
- for maintenance—the type of school, organization of its work, number of students, cost differences between professional areas, type of heating, etc.;
- for scholarships—number of receiving students and types of scholarships like social welfare, disabled students, orphans, outstanding performance;
- for capital investments—depending on the needs identified by schools and the priorities for the year: roof repairs, repairs of heating, electricity, and sewage systems, amongst others. The final prioritization and decision on the schools' capital improvement projects is made by the respective ministry responsible for the state schools.

The state schools have freedom in spending the revenues they raise. It is for them to decide whether to spend them on maintenance or capital costs. For capital costs covered by their own revenues the municipalities must coordinate their inclusion in the investment program with the financing authority.

Financing for Municipal Schools

Prior to 2002, the municipalities funded schools from general budget revenues. They raised limited own revenues and from the state received shared taxes by origin and general subsidies. There were no special revenues for the full or partial funding of education. Widespread financial difficulties resulted in the chronic underfunding of schools with the consequent deterioration of school infrastructure. Delayed payment of teacher salaries was a cause of frequent social tension. With local authorities having no direct control over the running of schools, the rising shortfalls put a lot of pressure on the municipal budgets.

The absence of rules for allocating resources among the municipalities caused widespread resentment, even in those for whom the system was relatively favorable. A contributing factor was the practice of the Ministry of Finance to provide partial financing to the municipalities at the beginning of the year and later grant additional subsidies as it saw appropriate or under combined pressure from municipalities. The two most visible features of the system were the absence of a clear division of responsibilities between central and local government in public service provision, and disincentives for efficient and effective financial management.

At the beginning of 2003, the process of fiscal decentralization started in Bulgaria. Radical changes were introduced in the fiscal relations between the state and the

municipalities covering shared taxes and subsidies, and the methods by which they were determined and allocated among municipalities.

The services provided by the municipalities are divided into two groups: services delegated by the state and local services. The sources from which they are funded are clearly established. The expenditures for activities delegated by the state are based on standards that are used for a more accurate estimation of the required resources and for their allocation among municipalities. These expenditures are funded from personal income tax receipts and, if they are insufficient, from a general top-up subsidy.

Municipal schools are a service delegated by the state. In 2007, the previous expenditure standards were "unified" and converted to a single costing-standard per student (quasi-voucher system implementing the principle "money follows the student").

In addition to the funds defined through the costing standard, in the course of the year the municipalities receive:

- specific subsidies from the Ministry of Finance for additional remuneration of teachers;
- subsidies to compensate costs incurred by the municipalities, e.g., transport for students and teachers;
- specific subsidies for capital investments from the Ministry of Education and Science;
- free textbooks for first-graders. The costs are covered from the budget of the Ministry of Education and Science, which purchases and distributes them among schools on the basis of their estimated needs.

The capital investment subsidy and the own revenues set aside for investments are the framework in which the local authorities allocate financing among schools. There are no limits on the size of the funds earmarked for education. An exception to this rule was in 2004 when the State Budget Act set a 60:40 ratio in favor of all delegated tasks, schools included. This limit proved ineffective and later was removed.

The expenditure standards are used only for the purpose of allocating resources among municipalities. The latter can plan for individual activities only according to these standards and have limited powers to reallocate funds among items during the financial year. They are not allowed to transfer funds from one activity to another.

The local authorities are not expected to apply the standards in allocating resources among schools. The budget of every school is included in the municipality's budget. Unused resources at the end of the year may be freely transferred to fund other services, local services included.

In 2005, the Ministry of Education and Science established limits on the ability of municipalities to allocate resources among schools on the basis of the differences between them. A regulatory act required that each school receive a minimum of 80 percent of the

funds paid under the maintenance per-student standard. The municipality could redistribute the remaining 20 percent among schools to respond to their special needs.

In 2007, a new mechanism for funding municipal education activities was adopted following the introduction of the quasi-voucher system. The local governments in Bulgaria were grouped into four general groups based on key demographic and geographic criteria. The amount of the costing standard was defined for each of these four groups. Mid- to long-term targets were set according to the implementation of tailored programs for each of the groups with the ultimate goal to scale down the factors driving the different levels of costs for education. In a parallel development, the detailed and strict regulations on staffing have been relaxed and the responsibilities for defining the number of staff and class sizes have been shifted to the school directors and the local administrations. In addition, the delegated budget system (DBS) has been nationally expanded in 2008, thus further increasing the financial and management autonomy of the schools.

The implementation of the new system of allocating financial resources among the municipalities, until 2007, showed that, as a whole, the resources are sufficient. However, the municipalities lost the right to transfer funds from one function to another, from one activity within the function to another, and from one item to another. As a result, the municipalities found themselves in the absurd situation of ending the year with surpluses in some activities and, at the same time, shortfalls in others. This situation is likely to remain unchanged even after the quasi-voucher system has been introduced, as these limitations have been preserved.

However, the positive results from the implementation of the reforms should not be underestimated. First, the school financing responsibilities are now clearly allocated between the state and the municipalities. Second, there are smaller differences in school costs between municipalities. The variation in maintenance costs dramatically and immediately reduced, from 26 times in 2001 to 1.6 in 2003. Obviously, resources are allocated in a clear, transparent, and much fairer way; and lastly, there is a long-term certainty about the funds municipalities will receive from the state.

Looking at long-term reforms, Bulgaria will need to tackle several problems:

- Currently there is no system for monitoring the quality or evaluating the performance at various levels. All well-performing school systems place considerable importance on monitoring and evaluating the quality of the school system as part of the strategy to secure strong performance. In contrast to most modern education systems, Bulgaria does not yet have an objective and transparent framework to monitor standards against national and international benchmarks. Results from international comparative studies (for example, PISA) have not been used for system monitoring or improvement. Bulgaria also lacks a national testing and evaluation system to measure quality at various levels of the system, and the planned external assessment, at the end of grades four, seven to eight, and twelve to thirteen *(matura),* had yet to be implemented nationwide in 2008.

- There is no external evaluation system of students or schools based on results. The absence of a reliable system of external evaluation of schools contributes to the inability to objectively understand the causes of differences in performance between schools and to target assistance to underperforming schools. A Center for Control and Quality Assessment was established in 2005, and could play an important role in moving forward, but the challenge—as in the past—will be to establish the needed expertise and to overcome traditional practices and public/social opposition that have proved formidable in the past.
- Currently, there is no focus on accountability for quality. In part, a result of the lag in developing an external assessment system, there are no agreed targets at the national or local levels for teaching and learning results, and no mechanisms to hold the Ministry of Education, municipalities, or schools accountable for improving results.
- There is insufficient competition among schools. There are no incentives or mechanisms to encourage and enable poorly performing schools to improve or to learn from other schools. Funding mechanisms do not yet link to quality or equity objectives. Information on school outcomes and good practices is lacking. Even after the national expansion of the delegated budget system, which ensures some competition, mechanisms to improve quality and equity have yet to be developed.
- There is still work to be done on increasing the quality of teachers. Teacher quality is a key determinant of educational outcomes. The move towards modern, student-centered curricula imparting basic skills requires a shift in the paradigm of a teacher—from the traditional role of imparting subject matter to one of adaptability and innovation regarding curricula and pedagogy. It poses new challenges and expectations for teachers to work together and to be more open to productive relationships with parents and local communities. Despite overstaffing at the aggregate level, there is a shortage of teachers with skills in specific areas such as foreign languages. Pre-service and in-service training structures only recently have begun to adequately address the practical needs of teachers and school staff on the ground. Important recent developments on this front, however, include the recent adoption of a law to reform teacher education and the establishment of a National Pedagogic Center, which is to have a major role in in-service development.
- The participation and completion rates for upper-secondary education need to be raised, as they are low in comparison with the original EU-10 states. Completing upper-secondary education is a prerequisite for a dynamic and competitive European economy: it is the minimum needed to improve the prospects of individuals in the labor market, to enable their further education

and training, and to prepare them for lifelong learning. Bulgaria's share of its young population completing upper-secondary school—although comparable to the EU-25 average—is substantially below the Lisbon target of 85 percent in 2010. Importantly, it is below that in most of the EU-10 as well as EU-15 countries such as Sweden, Ireland, and France. In part, this reflects the substantial discontinuation after basic education: over a fifth of young Bulgarians aged 18–24 have only lower-secondary education and are not participating in further education and training. This is high compared to a Lisbon target of no more than 10 percent by 2010, an average for the EU countries of 15.9 percent, and particularly the average of 7.5 percent in the EU-10 states. It is of particular concern for social cohesion and integration into the work force.

Table 8.
Trends in Net Enrollment Rates in Schools

	1994–1995	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005
Pre-primary	59.7	66.8	73.6	74.2	74.6	73.6
Primary	92.8	96.3	98.5	99.8	100.3	99.7
Lower Secondary	79.0	82.4	83.1	84.0	84.2	84.2
Upper Secondary	61.4	64.7	68.3	74.9	77.1	77.3

Source: National Statistics Institute.

Bulgaria has made tremendous progress over the past decade in increasing participation rates among the school-age population. Net enrollment ratios at pre-primary, basic, and upper-secondary levels are all higher today than they were 10 years ago. Nevertheless, a key challenge is the still lower than desired net enrollment ratio in lower-secondary education—at 84 percent—and the relatively small gains in the net enrollment rate at this level. The sharp fall in net enrollment rates between primary and lower secondary, still a part of compulsory education, is of concern. Upper secondary shows impressive increases, although to some extent this reflects the recent increase in the duration of some programs. Despite this progress, participation among students of upper-secondary age is still lower than the average for the EU-25 and the EU-10.

- Attract the interest and support of local community in resolving the problems of schools. The piloting of the school council structure would probably bring parents closer to school life and the issues of school management and quality. It is important that the first steps to introduce these structures in the 10 pilot municipalities be followed by adequate analysis and that quick further steps are taken towards a national expansion of the concept.

- Finance private schools with public funds. From the taxpayers' perspective it is reasonable to consider the option for allocating state funds to private schools at equal footing with the public schools. The new quasi-voucher system should facilitate the implementation of that concept and will further enhance competition among all schools in Bulgaria.

THE DELEGATED BUDGET SYSTEM IN MUNICIPAL SCHOOL FINANCING

The purpose of the reform towards fiscal decentralization is to transfer resources, decision-making authority, and service provision responsibilities to the lower levels of local government. The most appropriate institution for the provision of a given service is determined on the basis of the principle of subsidiary. This is the criterion of allocating service provision responsibilities among the different levels of public institutions.

The first stage of the reform involves regulating relations among central and local authorities. At the second stage the same principle is applied within the municipality to the relations between local government and its structural components, i.e., mayoralties and the service providers.

The Delegated Budget System (DBS) is a practical illustration of the extension of this reform towards fiscal decentralization. It has been implemented in more than 30 municipalities. Within this system the municipality transfers to the school authorities the right to make independent decisions about administrative, organizational, and financial aspects, and they are also held accountable for the results of these decisions. The powers and responsibilities of municipalities shift from direct management of schools to coordination, methodological assistance, training, and supervision.

The main characteristics of DBS are:

- The municipality and the school directors agree on the mechanism of allocating resources among schools.
- Schools become secondary budget holders, compile their own budgets, and have their own bank accounts.
- Schools have the authority to manage property such as canteens, land, and vacant premises, and to raise additional revenues.

A survey of local governments and schools in 10 municipalities about the implementation of the delegated budget system, conducted in 2004, leads to the following advantages:

- DBS is a tool to regulate relations between municipalities and schools. The two sides have clear powers and responsibilities. The total amount of resources and

their allocation among schools are determined in a transparent and objective manner. It is no longer possible to make any excuses for poor performance or blame others.

- A broader range of stakeholders are involved in the decision-making that effects schools.
- The allocation mechanism is clear and transparent. Each director can calculate the amount he or she is entitled to, and the amount of the neighboring school.
- More fair allocation and equal treatment of schools is achieved. The formula used takes into account the specific needs of small schools and schools in rural communities. The inclusion of adjustment ratios, buildings, and additional activities like dormitories also help reflect the specificities of schools at the local level.
- More funds are available because schools have incentives to increase their own revenues.
- DBS is a tool for reducing costs. Spending is more efficient. There are incentives to save because the savings are kept by the schools, to be spent on the priorities they have identified.
- Expenditures are more efficient. In the past, schools contributed to a municipality's unpaid bills, now they end the year with rollover surpluses.
- More resources and efficient spending have allowed schools to purchase more and better products needed for their core teaching activities. Because they have been given greater decision-making powers, school authorities are able to make decisions about infrastructure maintenance, purchase of teaching aids and facilities, and offer additional services like computer rooms, participation in competitions, study visits, and others.
- The first differences in the efficiency of operations between schools have emerged. The differences are caused by two factors: (1) school staff, its capacity, and leadership; and (2) the local environment in which the school exists. The type of income that is raised depends on aspects of this environment; for example, schools in rural communities own land, while urban ones can offer additional services like foreign-language courses, other specialized courses, and rent out vacant space.
- The municipal administration itself has also become more efficient. Instead of wasting their time on useless paper work, processing of applications, and other documents, the experts are focusing more on analyzing, monitoring, and supervising the performance of schools.

The question is: how do these aspects of efficiency affect the quality of services? This is a relevant question because:

- Savings could be a result of poorer service quality;
- The drive to raise more revenues might result in the cutting of core teaching activities and expanding business ones.

Effectiveness, seen as the extent to which a desired aim has been achieved, can be assessed by the performance of the education system. More specifically, this requires the following:

- Assess the adequacy of the educational system to the needs of the labor market. It is not clear whether the schools are using the opportunity to tailor their curricula to the needs of the local and national labor markets.
- Ensure equal access to school for all children of the same age. Parents have the right to choose a school for their children, which results in strong competition between schools. Competition for students is a competition for jobs and should be a matter of survival for the particular school. Despite these incentives, school authorities give rather vague answers to the question whether this aim is being achieved. Rather, there is a sense that schools are more interested in stealing each other's students than trying hard to attract students who have never been to school or who have dropped out. With the drive to make the school network more efficient by closing schools in communities that have no alternatives, i.e., when the only school is closed, entire areas are becoming depopulated and children's access to school is limited.
- Design and introduce a quality assessment system, i.e., criteria and measurement indicators. There is still no system of recognizing and rewarding excellence. If average grades and the success of students are considered as one of the indicators for education quality the following picture is disclosed in Tables 9 and 10.

Table 9.
Changes in the Average Grades of Students after DBS (Percent)

	Higher	Lower	No Change	Don't Know
All schools	20	1	39	40
Including:				
• Urban	28	2	35	35
• Rural	7	0	45	48
Including:				
• Director	26	2	45	26
• Accountant	12	0	30	58

Table 10.
Changes in Children's Success in Admission Tests (Percent)

	Higher	No Change	Don't Know
All schools	19	35	47
Including:			
• Urban	24	39	37
• Rural	10	28	62
Including:			
• Director	26	38	36
• Accountant	9	30	61

Unfortunately, there is no information for the assessment of other indicators for the quality of the educational system.

The analysis of the results of implementing the delegated budget system in education is the basis on which recommendations for taking the reform process further have been made.

These recommendations are as follows:

The delegated budget system is an outcome of the decentralization process, whose goal is to raise the efficiency and effectiveness of the system. This can only be achieved if the necessary conditions are in place. There is no doubt that the external factors which influence the relations between the municipalities and schools have become more favorable. The new national standards have ensured a fairer allocation of resources among municipalities.

The idea behind transferring powers and responsibilities to schools is to shift decision-making to the level that has the strongest interest in providing certain services and can offer cost-effectiveness, efficiency, and the highest quality. If no measures are taken to make it possible to achieve this goal, the end result will be a simple replacement of one set of officials (the municipality) with another (the directors). The school councils, introduced in 2007, involve teachers and parents in decision-making at the school level and the outcomes of this pilot are yet to be analyzed.

Schools have an incentive to attract children but not to achieve better results. A national external assessment system, as well as a system of monitoring and assessing of the quality of education services are needed. One possible solution is to build into the national standards, and the formulae used in allocating funds among schools, quality criteria, e.g., improved access, higher grades, continuation of education in secondary schools/universities, etc.

CONCLUSIONS

Several strengths lie within the Bulgarian education system. First, Bulgaria has a fairly well-preserved national tradition of education as an important means towards success in life. This clearly explains the success in achieving a certain stability in the financial responsibilities of authorities to finance the education services provided by the municipalities. The introduction of the delegated budget system in municipalities, where a portion of the money follows the student, is a successful first step towards full decentralization, and has proven a more efficient use of resources. However, these successes should be carefully analyzed. But it is not very clear whether the cost savings came at the cost of—or were accompanied by—improved quality and equity. Little information on outcomes, and limited checks and balances on school directors through participation of local stakeholders in decisions, are among the constraints that need to be addressed. Last, Bulgaria has successfully undertaken the necessary steps for establishing private education.

While acknowledging significant progress, several weaknesses remain to be addressed. First, municipalities are faced with responsibilities for financing schools that in some cases are incommensurate with their powers. Second, schools need incentives for increasing their efficiency and performance. Currently, schools do not have a proper system of monitoring and assessing the quality of education services.

Obviously, the development of opportunities for schools are dependent upon several external factors. Decentralization cannot progress without committed government efforts to implement the national education strategy and to scrutinize quality through a proper monitoring and evaluation system. Reforms towards decentralization should continue and should involve more local stakeholders. The latter could, for example, evaluate the impact of decentralization and could support the dissemination of good practices extracted from the pilot phase of the introduction of the school council structures.

The main threats to the system of education that should be taken into account are: potential lack of political goodwill to implement changes, unequal access to education and, lastly, a declining quality of education services.

The results of the analysis lead to the conclusion that public education faces a large number of problems. The steps taken in the last few years have led to an increased decentralization of education service delivery, though they are only a precondition for the achievement of the broader goals for higher quality, more equality, and better participation rates in school education. Assistance from outside the sector is still needed.

The main lever for change is the continuation of the reform towards fiscal decentralization in education. Several recommendations could be outlined in this respect. Firstly, the central government needs to renounce the behavior that impedes a coherent development of reform. For example, it should align secondary legislation with primary legislation in a way that enhances local powers. Often, norms in the secondary legisla-

tion block the transfer of powers regulated in primary legislation. Also, the Ministry of Education and Science, and other central government bodies need to stop bypassing municipalities and providing financial resources directly to schools (such as resources for repair works allocated by the Ministry of Education). Last but not least, the level of funding for delegated services should be increased. The state seems to think that by adopting the standards it has fulfilled its responsibilities and this explains the poor financial management at the level of municipalities. A more dangerous tendency is the attitude, even among municipal structures, that the centralization of activities is the only way to solve problems (some examples are the maintenance standards of 2005, the wish of directors to be financed directly by the Ministry of Education and Science, or the wish of municipal finance officers that kindergartens become a service delegated by the state).

In our opinion, fiscal decentralization in education will require the following next steps:

- Decentralize further responsibilities from the central to the local level, for other types of schools. A useful step that is already in the pipeline for implementation in 2009 would be to transfer the management and financing of vocational training schools from the central level, where they are now, to the municipalities.
- Increase the level of own revenue sources for the municipalities to enable them to fund a higher proportion of education services. Constitutional amendments adopted in 2007 significantly increased the fiscal autonomy and the taxing powers of local governments, though the initial results are yet to be seen.
- Transfer powers from the central to the local levels in the areas of reallocating the financial transfers from the state received on the basis of the costing standard.
- Overall, allocate more financial resources to the education sector.

NOTES

1 Paper prepared by the Local Government Initiative, Sofia, April 2005. The Local Government Initiative is implemented by RTI under USAID Contract Number EEU-I-00-99-00014-00, the Local Government Assistance Initiative Services, IQC, Task Order 802.

2 The conclusions and opinions expressed in this report are personal and do not necessarily coincide with the official position of the Ministry of Finance, the Ministry of Education and Science, and the National Association of Municipalities. The authors would like to thank: Elisaveta Panyovska and Mariana Lambova (Ministry of Education and Science); Mariana Moteva (Ministry of Finance); Ginka Chavdarova, Daniela Ushatova, Sava Popov, and Rositsa Georgieva (National Association of Municipalities) for their advice and information.

[3] The main policy document asserting the main principles, aims, and priorities of the national education policy is the Strategy for Modernization of Bulgarian School Education System, developed by the Ministry of Education. This policy document was replaced in 2006 by a new policy document adopted by Parliament, the Program for Development of School and Preschool Education for the Period 2006–2015. The latter has a philosophy oriented towards the decentralization of both funding and decision-making to municipal and school levels and contains specific measures and a schedule for implementation.

APPENDIX

Table A1.1.
Structure of Education Expenditures of Local Authorities: 2003 vs. 2006

Structure of expenditures	Total expenditures for education				Expenditures for general education schools			
	BGN million		Percent		BGN million		Percent	
	2003	2006	2003	2006	2003	2006	2003	2006
Labor	600.9	693.5	70.5	63.89	412.4	468.8	73.1	68.10
Maintenance	222.5	338.7	26.1	31.21	129.1	182.2	22.9	26.47
Scholarships	9.9	9.9	1.2	0.91	9.5	9.5	1.7	1.38
Capital investment	18.9	43.2	2.2	3.99	13.3	27.9	2.4	4.05
Total expenditures	**852.2**	**1,085.4**	**100.0**	**100.0**	**564.3**	**688.4**	**100.0**	**100.0**

Table A1.2
Comparison of Gross Annual Remuneration of Teachers to per Capita GDP

	1999	2000	2001	2002	2003	2004	2005	2006
GDP (BGN million)	22,776.00	26,752.80	29,617.70	32,335.10	34,410.20	38,822.60	42,797.40	49,090.60
Population (million)	8.21	8.14	7.89	7.84	7.80	7.76	7.71	7.67
GDP per capita	2,774.18	3,286.58	3,753.83	4,124.38	4,411.56	5,002.91	5,550.89	6,400.34
Gross annual remuneration of teachers	2,089.90	2,699.80	2,969.80	3,287.90	3,773.00	4,486.40	5,011.20	5,489.80
Share of gross annual remuneration of teachers in the per capita GDP	0.75	0.82	0.79	0.80	0.86	0.90	0.90	0.86

CHAPTER 3

Financing Education in Croatia

Ivana Batarelo, Željka Podrug, and *Tome Apostoloski*

Executive Summary

Fiscal decentralization of the education sector in Croatia began in 2001 with changes to three key laws on primary schools, secondary schools, and local government financing. This reform has involved a breadth of local and state actors, most notably the Ministry of Science, Education, and Sport (MoSES), its regional units, its agencies, city halls, and schools, in addition to reforms passing financial responsibility to local governments for other sectors like healthcare and welfare. In the matrix of the reform of education financing, MoSES retains overall responsibility for all levels of the education system and MoSES is the main policymaking body with the most financial responsibility and control.

However, the reform entailed the central government withdrawing its total financing for material costs and expenditure while continuing to pay salaries in full. The remaining financial obligations were taken by local governments, newly empowered to have a percentage of income tax within their authority in addition to grants from a national equalization fund for municipalities requiring a top-up in the financial capacity to fund their schools. Qualified local governments that could take this burden stood to gain a 10 percent increase in income tax revenues: 2.9 percent of this financed primary education and two percent secondary schools. Since 2007, the rate has increased to 3.1 and 2.2 percent, respectively.

Each year, in cooperation with the Ministry of Finance, MoSES sets the minimum financial standards, taking into consideration the expenditure needs of each local government. This allocation is based on the number of enrolled pupils multiplied by the average cost per pupil. An average cost is determined for each local government. An equalization fund also has been designed to absorb the excess funds from those local governments that report outperforming financial results. In 2006, only one town had excess revenue for the fund.

The decentralization of primary and secondary school finances is based on the transfer of the founding rights to the primary and secondary schools, which include the obligation for the partial financing of educational programs. School councils choose the school director, elect the teachers and administrative personnel, but teachers' salaries are regulated and determined by the central government and a contract with the teacher's trade unions. Expenditure for teachers' salaries declined from 3.28 to 1.70 percent of GDP between 2001 and 2006, in contrast to a 20.8 percent growth in GDP in the same period due to the end of the Balkan wars and the return of tourism revenues. Training is almost exclusively the domain of the Education and Teacher Training Agency, a leading nonprofit public institution.

Amendments to the laws of 2001 allow local governments to open and close schools, determine class size, while central government determines the curricula. Most local government also use additional income taxes, collected locally, to meet the gap between types of education expenditures that are met by the central government and those that are not, like the transport of children who live more than three kilometers from school or children with special needs. This is where equalization funds operate, too, but the formula based on per-student average cost is flawed in that it does not take into account local differences. Private schools are also permitted to apply for funding, though they are few in number. Preschools are strictly organized and funded on a local basis, but co-financing is still available from the central government for pupils with special needs or from ethnic minorities.

Local government has gained more opportunities for efficiency and accountability through the decentralization of education financing. And the education sector has responded to these allocations by stressing more languages, allowing parents to choose schools, and an increase in the number of teachers.

Due to financial decentralization efforts, significant changes have occurred in terms of resource allocation over the past three years. Education financing experts recognize that the main advantages of decentralization are related to the fact that the management of expenditures is in the vicinity of the actual schools that are better able to recognize their own needs. Expenditure norms for primary and secondary education are determined at the level of municipalities and towns.

For the future, the financing of education in Croatia should focus on clearer financing policies that might include: structuring the allocation formula, an improvement of the financial status of teachers, and strengthening the leadership and managerial knowledge of teachers and school directors. What began in finance will be continued in other relevant areas (i.e., management, curriculum, and human resources) in the years to come.

INTRODUCTION: GENERAL BACKGROUND

The Croatian system of education includes preschool, primary, secondary, and university education. Preschool education is delivered to children between six months and six years of age. Compulsory education in Croatia begins with primary education and includes eight years of schooling. Primary school education is obligatory and free of charge for all children aged seven to fifteen. The secondary-school system in Croatia includes general education (such as grammar schools) and vocational education. There are two types of vocational schools: those that provide a classical, vocational education with practical training at school, and others that offer dual programs. Dual programs combine apprenticeships at a business as well as vocational education at a vocational school within one course. The entire pre-primary education, compulsory primary, and secondary education is provided by the public, private, and church educational institutions, public schools, and other educational institutions. By law, citizens can open private schools and learning centers.[1]

Education Responsibilities

A large number of regional and nongovernmental institutions, research institutes, and trade unions are involved in the decentralization of the Croatian education system. Governance in education is ensured on three levels: central—the Ministry of Science, Education, and Sport (MoSES); regional (21 counties); regional units of the MoSES (counties are grouped in the six regional departments of the Education and Teacher Training Agency, which focuses on quality control and evaluation); city halls (32 towns); and local (schools).

MoSES retains the overall responsibility for all levels of the education system. Hence, MoSES is the main policymaking body with the most financial responsibility and control. All the functions in education, apart from primary education, are transferred to the municipalities, according to their fiscal capacity. The decentralized expenditures of primary schools in towns with lower fiscal capacity are taken over by the municipalities.[2] However, starting in 2007, towns showed an increasing interest in financing primary schools from their own budgets and are requesting a further transfer of founder rights for primary schools from the level of the municipality to the town.

The process of fiscal decentralization started with amendments to the Law on Primary Schools,[3] the Law on Secondary Schools,[4] and the Law on Financing Units of Local Self-government and Government[5] in 2001. The central government transferred the responsibility for financing education, healthcare, welfare, and fire departments to the local government units. The central government covered the financing for only a portion of the education costs (that is, for material costs and expenditures for the

procurement of non-financial assets), while it ensured the full financing of salaries. The financing of the decentralized functions was taken on by local government units with greater fiscal capacities.[6]

The decentralization of primary and secondary school finances is based on the transfer of founding rights to primary and secondary schools. The founding rights include an obligation for the partial financing of educational programs.

Schools became owners of their school buildings in January 2002. Currently, there are 53 school founders in Croatia. However, school owners cannot sell or rent the school building without the agreement of the school founders. School founders are commonly towns or municipalities.[7] The school statute regulates the amount of resources and sources of financing that school owners have control. Towns have founding rights for establishing primary schools, while municipalities have founding rights for the establishment of primary and secondary schools. The primary schools of poorer and smaller towns are funded on the municipality level. All municipalities have at least one town that is serving as a school founder. The Ministry of Finance determines which towns can be school founders, based on criteria that will be detailed later in this chapter.

The school founders currently have two financing sources that add up to the expenditure norms (minimal financial standards) set for the decentralized functions:

1) Their primary source of income is a percentage of income tax, as determined by the central government
2) Their secondary source of income is the Equalization Fund, an additional part of the income tax that central government cedes to local government units with lower fiscal capacities for financing the decentralized functions. The government sets the fund for the local governments that took on the financing of the decentralized functions, but are unable to finance them from the revenue they obtained from income tax. What that has meant in practice is that the local governments that undertook the financing of all the decentralized functions were able to increase their share of income tax by 10 percent. Out of this percentage, local governments received 2.9 percent of the income tax to finance primary education and two percent for the financing of secondary school education. Since January 2007, the rate increased to 3.1 percent for primary education and 2.2 for secondary education.

The minimum financial standards that need to be met by each local government are set each year by the Ministry of Education in cooperation with the government and Ministry of Finance. In defining minimum financial standards, the ministry takes into consideration the expenditure needs of individual local governments. For example, the criterion for the allocation of resources to cover materials and financial expenditures in secondary schools equals the number of enrolled pupils in a certain year multiplied

by the average annual cost per pupil. The average annual cost is set for each individual local government unit.

The level of resources between schools fluctuates given the different economic capacity of the local governments across Croatia. In the towns where minimum standards are met and financial achievements surpass 100 percent, a surplus is returned to the state budget in accordance to the equalization mechanisms. In 2006, however, there was only one town in Croatia whose financial achievements were over 100 percent.

The rules for appointing the school staff (such as school directors, teachers, and non-teaching staff) are included in existing primary and secondary school laws. The main body in charge of the selection of the school director is the school council, which consists of:

- four school representatives (three teachers and one parent) and
- three representatives of a local government unit.

In 2005, amendments to the Law on Primary Schools[8] and the Law on Secondary Schools[9] established a new relationship between school founders and school owners. At present, the school council can formulate a school statute, but only with the approval of the school founder. The school statute is a written law enacted by MoSES, containing the preamble, provisions, and rules for implementing such legislation. MoSES does not have influence on a school director's election and the minister can remove the school director only if she or he is breaking the law. According to some unofficial propositions, in the future, a school council might be changed to include four representatives from the town or municipality (the school founders), and three school representatives. Based on this proposal, the minister would have to approve an elected school director.

The school council elects the teachers, school director, and administrative personnel, subsequent to the publishing of a job announcement. The salary of teachers, school directors, and administrative personnel is calculated on the basis of coefficients regulated by the central government.[10] Teachers in Croatia have public servant status; therefore, a framework contract with the teacher unions regulates the benefits that teachers are entitled to receive for working under special conditions (such as combined classes, specialized work with students with special needs, teaching in schools in remote areas) and surpluses for academic levels.

As Table 1 shows, the average salaries for teachers decreased significantly, from 3.28 to 1.70 percent of GDP between 2001 and 2006.[11]

Table 1.
Average Teaching Salaries in Relation to per Capita GDP

Year	GDP per Capita (USD)	GDP per Capita (HRK)	Teachers (HRK)	
			Amount	Teacher Salary as Percent of GDP
2001	4,476.7	25,517	83,815	3.28
2002	5,136.9	29,280	82,126	2.80
2003	6,485.7	36,968	87,648	2.37
2004	6,680.3	38,078	92,905	2.44
2005	8,614.3	52,117	92,905	1.78
2006	9,330.9	56,452	95,692	1.70

Source: Annual report by Ministry of Finance for 2002–2006.

As a matter of fact, the increase in the number of teachers was followed by an increase of funds for salaries. The decrease in average teaching salaries, as a percentage of GDP, is explained by the fast growth of GDP and a subsequent increase in salaries. To illustrate, the GDP increase from 2001 until 2007 was 20.8 percent for a six-year period. In the same time period, the increase of teachers' salaries was 11.4 percent. Hence, the relationship between teachers' annual salaries and GDP shows a relative decrease.

The state budget regulates funds for regular salaries and bonuses for employees (for example, anniversary bonuses, financial support in case of a death, and financial help for medications, etc.), travel expenses for primary school employees, funds for expenses needed for the education of students with special needs, the co-financing of alternative and private schools, school library resources, other programs of common interest, and the completion of capital projects which started prior to July 2001.

The law regulates the establishment and financing of public primary schools, all types of activities conducted in these schools, founding and closure of the primary schools, teaching plans and programs, the organization of schools, the rights and obligations of students (including their assessment and evaluation), the primary rights and obligations of teachers and counseling teams, school management, and obligatory documentation.[12] MoSES certifies programs of both private and public schools. In addition, private primary and secondary schools are financed from the state budget and according to the criteria prescribed by the minister.

The Education and Teacher Training Agency (the former Institute for School Development of the Republic of Croatia) and various other nongovernmental organizations conduct teacher training. The Education and Teacher Training Agency remains a

leading nonprofit public institution that offers professional support (teacher training, inspection, and monitoring) at the level of preschool, primary, and secondary school education. The agency has a network of six branch offices (Zagreb, Rijeka, Zadar, Split, Varaždin, and Osijek). The agency in its current form was established in December 2003. Previously, it was an agency of the ministry.

According to the Law on Primary Schools and the Law on Secondary Schools, the establishment or closure of a school is regulated at the level of the town for primary schools or the municipality level for primary and secondary schools. The same regulations determine class size and suggest that classes should have 30 students (plus or minus two). Furthermore, in Croatia, there is a partial inclusion of students with special needs both at the primary[13] and secondary[14] school level. If there is a student with special needs in a class, the regulations state that the total number of students in a class should not exceed 25. Teaching plans and programs are determined at the central level. Currently, teaching plans and programs are passing through a process of content reduction.

BASIC STRUCTURE OF EDUCATION FINANCING

The process of public sector decentralization officially started in July 2001, when the Croatian Parliament passed the laws through which the financing of certain functions and costs of primary and secondary education were transferred from the national budget to the budgets of towns and municipalities. The resources needed for the implementation of the policy were also provided for.

Educational provisions are directly linked to educational financing, hence the increase of education expenditures as a percentage of GDP. Public expenditure should positively influence educational opportunities in Croatia. In 2002, public expenditures experienced a large increase due to the inclusion of both the retirement and health funds. Thus, education decreased as a percentage of participation in public expenditure (see Table 2). Although the nominal values increased, the relative values decreased. In conclusion, education expenditures increased significantly in the last six years.

Table 2.
Expenditure on Preschool, Primary, Secondary, and Vocational Education as a Percent of GDP and Public Expenditure (HRK)

			Preschool Education		Primary Education		Secondary Education		Total	
Year	GDP (HRK)	Public Expenditure	Percent in GDP	Percent in Public Expenditure	Percent in GDP	Percent in Public Expenditure	Percent in GDP	Percent in Public Expenditure	Percent in GDP	Percent in Public Expenditure
2001	165,640,000	57,812,764	0.005	0.014	2.018	5.781	0.994	2.847	3.016	8.642
2002	179,330,000	73,369,602	0.006	0.014	2.028	4.956	1.016	2.484	3.050	7.454
2003	193,067,000	80,441,123	0.011	0.025	2.064	4.954	1.059	2.543	3.134	7.522
2004	212,826,000	83,203,887	0.011	0.028	2.012	5.146	1.012	2.588	3.034	7.761
2005	231,348,000	87,633,409	0.009	0.024	1.928	5.090	0.994	2.623	2.931	7.738
2006	250,591,000	96,067,349	0.007	0.018	1.909	4.914	0.984	2.532	2.900	7.464

Source: Annual report by Ministry of Finance for 2001–2003.
Notes: Since 2002, the sources from the then-retirement and health funds are included in the public expenditure.
Data for 2004, 2005, and 2006 is based on directions of the government of Republic of Croatia macroeconomic policies.

A percentage division of education expenditures from central budget between types of costs is presented in Table 3. Centralized costs for primary and secondary schools consist of:

- Salaries for employees in primary and secondary schools,
- Daily transportation costs for employees in primary schools,
- Compensation for employees according to a contract settled with the trade union,
- Increased costs of schooling for additional programs for ethnic minorities,
- Programs for children with special needs,
- Equipment for school libraries,
- ICT programs,
- In-service training of teachers,
- Capital projects (only for projects that started prior to July 2001),
- Participation in financing of alternative and private schools, and
- Other programs of common interest.

Table 3.
Percent Division of Education Expenditures from Central Budget
(Split between Types of Cost)

Year	Salaries and Bonuses (Expenditures for Employees)	Capital Expenditures	Special Programs	Other Programs	Total
2001	88.32	6.72	0.68	4.28	100.00
2002	90.94	8.12	0.94	0.00	100.00
2003	92.96	5.74	1.11	0.19	100.00
2004	95.05	3.64	1.01	0.30	100.00
2005	96.99	2.41	0.24	0.36	100.00
2006	96.77	2.03	0.26	0.94	100.00

Source: Ministry of Science, Education, and Sport.

The percentage division of education expenditures of the decentralized expenditures for primary and secondary schools is presented in Table 4. The specific decentralized costs for primary schools consist of:

- General costs for schools,
- Heating and lighting in schools,

- Transportation for students (when the distance from a student's home address to the school is more than three kilometers for students in grades one to four, or more than five kilometers for students in grades five to eight),
- Maintenance of schools and equipment, and
- Capital expenditures (according to the standards approved by the Ministry).

Table 4.
Percent Division of Education Expenditures of Decentralized Expenditures for Primary and Secondary Schools (Split between Types of Cost)

Year	Material and Financial Expenditures	Maintenance, Investments and Capital Expenditures
2001	94.56	5.44
2002	84.48	15.52
2003	76.58	23.42
2004	75.60	24.40
2005	71.77	28.23
2006	71.61	28.39

Source: Ministry of Science, Education, and Sport.

Each year the level of resources directed toward decentralized costs changes. One can notice an increase in the level of funding for capital expenditures. Since the start of the decentralization of education financing, there has been a visible increase in the yearly percentage of the contribution of local government revenues and equalization funds allocated to education (Table 5).

Table 5.
Percent Contributions of National and Local Government to Education Expenditure (HRK thousands)

Sources	2001*	2002	2003	2004	2005	2006
Total funds	4,987,984	5,458,695	6,030,140	6,434,351	6,759,535	7,152,907
Local government contribution to education	326,896	881,763	1,068,615	1,111,692	1,265,003	1,333,712
Percent of contributions for decentralized sources	6.55	16.15	17.72	17.28	18.71	18.64

Source: Ministry of Science, Education, and Sport.
Note: * Decentralized since July 1, 2001.

The specific decentralized costs of secondary schools consist of:

- General costs for schools,
- Heating and lighting in schools,
- Transportation costs for employees,
- Participation in costs of boarding dormitories for students (a total of 53 boarding houses),
- Maintenance of schools and equipment, and
- Capital expenditures (according to the standards approved by the ministry).

A notable decreasing trend in capital expenditures financed from the central budget has influenced the increase of funds at the local level (see Tables 4 and 5). These funds are distributed to the local government (towns or municipalities), according to the number of school buildings, classes, and students.

The amounts of planned costs for different MoSES's programs[15] are shown in Table 6.

Most of the local governments in Croatia use additional income taxes, collected locally. The difference between additional, locally-collected income taxes in towns and municipalities, and the level of resources needed to cover the minimal standard, is received from equalization funds (e.g., for the maintenance of old school buildings, regional-level student competitions, additional programs for students, and the transport of students that live less than three kilometers from school). Equalization funds are allocated in the annual State Budget Law. This sum is defined annually, placed in the Ministry of Finance, then distributed among three bodies (MoSES, the Ministry of Health and Social Welfare, and the Croatian National Protection and Rescue Directorate).

For example, the criterion for the allocation of resources to cover material and financial expenditure in secondary schools equals the number of enrolled pupils in a certain year multiplied by the average annual cost per pupil. The average annual cost is set for each individual local government unit.

Croatian education finance experts believe that the methodology for fund allocation should be based on a per-student formula. While the current method—based on an average per-student cost—does take into account some differences in per-student costs generated by population density,[16] equally important factors are not adjusted for—such as heating cost differences, transportation issues, minorities, students with special needs, etc. A formula would make things more straightforward and would increase the efficiency in fund distribution.

Private primary and secondary schools can be co-financed by the state budget, according to criteria identified by the minister. Resources for co-financing are secured in the central budget.[17] The resources approved for the current expenses are based on measures approved by the minister and amount to 30 percent of the educational cost for students in public schools. The ministry subsidizes private schools based on a policy

intended to encourage private education and thus create competition between private and state schools. In Croatia, there are 12 private primary schools and 22 private secondary schools. Nevertheless, the number of students in these schools is smaller than in the public schools. In total, only 0.2 percent of primary school students and one percent of secondary school students attend private schools. Apparently, financial measures are not enough to stimulate educational diversity in Croatia, and increase the likelihood that parents will opt for private schooling for their children. Because private education in Croatia does not have a long tradition, it is difficult to draw more conclusions based on the present financial data.

Table 6.
Croatian Education Budget for 2007

Type of Program	HRK	Percent
Ministry's administration and common services	112,768,237	1.14
Joint educational programs	116,104,235	1.17
Preschool	22,716,000	0.23
Primary schools	4,113,155,192	41.28
Secondary schools and housing	2,032,586,849	20.40
Sports	115,030,133	1.11
Higher education	2,348,046.,338	23.56
Research and scientific work	840,011.,410	8.43
National information infrastructure	97,126,889	0.98
Technology and development	113,125,718	1.14
International cooperation	55,084,000	0.56
Total for MoSES	9,965,755,001	100.00
Education and Teacher Training Agency	292,195,913	
Agency for Adult Education	8,427,545	
Agency for Vocational Education	20,088,490	
Agency for Science and Higher Education	12,158,178	
Croatian Academic and Research Network	90,236,987	
SRCE University Computing Center	25,444,879	
National Center for External Evaluation of Education	35,224,703	
Total	**10,449,531,696**	

Preschool education is organized and financed at the local level.[18] According to Article 50 of the Law on Preschool Education, preschool education is co-financed from the central budget for children with special needs, gifted children, who represent a total of 1,700 children from ethnic minorities (Czech, Roma, Serbian, and Italian children), and preschool programs (total of 16,000 children who were not involved in regular kindergarten programs in 2005). MoSES has determined the criteria for the co-financing of preschool programs that include the number of children and the number of hours that children spend in preschool education.[19] MoSES approves preschool education investments for each fiscal year. Investment expenditures from 2001 until 2006 are presented in Table 7. The source of funding is ensured by both MoSES funds and also by decentralized funds that include both local government revenues and equalization funds, thus the level is constantly increasing.

As Table 7 shows, between 2001 and 2006, there is a slight increase in total funds and a decrease in capital expenditures. This change is due to the fact that the central government governs preschool institutions. Nevertheless, the central government made investments in the areas where local government does not have a fiscal capacity to set up preschools.

Table 7.
Preschool Education Investments from the Central Budget 2001–2006
(HRK Thousands)

Program Description	2001	2002	2003	2004	200520	2006[21]
Special needs	4,369	4,937	4,087	7,186	7,200	7,200
Gifted children	—	—	500	1,200	1,500	1,700
Ethnic minorities	841	885	1,081	1,500	1,500	1,500
Preschool (short preparation for primary school)	—	—	1,200	3,600	4,000	4,000
Total	**5,210**	**5,822**	**6,868**	**13,486**	**14,200**	**14,400**
Capital expenditures	2,757	4,800	13,442	10,032	7,000	3,366
Grand total	**7,967**	**10,622**	**20,310**	**23,518**	**21,200**	**17,766**

THE EXISTING FRAMEWORK FOR EDUCATION FINANCING

Local governments are partially responsible for funding schools as a result of recent decentralization efforts. Though this does not influence the level of school finance, it influences school quality. In the centralized system, the central government was unable to recognize local problems in education. One of the advantages of financial

decentralization is in the fact the local government has better insight into region-specific problems and can channel funds to address the specific needs of a school.

The secondary-school network was always under municipal responsibility. Thus, decentralization had no significant impact on the curriculum in the secondary schools. Nevertheless, the level of expenditures increased and there has been a noticeable impact on the proliferation of schools. An increase in school numbers occurred in all parts of Croatia, not only in the areas where refugees returned. The reason for this is directly linked to the planned transfer to one-shift schools, while most of the schools are still working in two shifts.

In addition to the funds provided by the center—which cover the minimum standards in education—local governments are encouraged to participate in the financing of primary and secondary education. Consequently, local governments offer grants for student participation in local competitions, purchase school equipment, etc. State competitions are financed from the central budget. Additionally, schools raise their own revenues from donations and can earn money by renting school premises. This source of revenue is monitored by the school founders, but is not reported to the MoSES.

MoSES monitors and analyses total expenditures for decentralized functions in 21 counties and 32 towns. In each fiscal year, the monitoring is conducted through tables for the two periods: January through June and January through December.

The current education system has insufficient capabilities to cope with the structural change presented by decentralization. Improvements in the quality of education are not possible in the absence of skilled human resources, such as local financial experts and managers. There is a definite need to strengthen the capacity of school directors, specialists in education, and financial experts at the level of the local government.

Additionally, there is an ongoing need to bring teachers to remote areas. Existing administrative and financial arrangements do not attract and retain good teachers. Complete financial decentralization would negatively impact teacher salaries in poorer areas where local government are not in the position to offer attractive salaries. This should be compensated with other government forms of support, such as subsidized home loans.[22]

According to the data there exists a decrease in the student–teacher ratio (see Table 8). This is directly related to demographic changes and the decrease of the student population in schools. Although there is a decrease in number of students in classes, there is no change in the number of actual classes. Consequently, in the time period from 1994 until 2004, the average number of students in primary school classes decreased from 24 to 21 (MoSES 2005).[23] This change is related to the apparent drop in the birth rate and the continuous increase in number of schools and teachers.

There was a visible increase in the number of schools from 2001 to 2006, which was due to the return of refugees and renewal of schools destroyed during the war. These new schools have opened in areas under special state concern.[24]

Table 8.
Trends in Student Numbers and their Relationship to Numbers of Teachers, Schools

Year	Number of Students	Number of Teachers	Number of Schools	Teacher–student Ratio	Average Number of Students in School
Primary Schools					
2001	412,360	31,062	893	13.27	462
2002	408,424	30,922	893	13.20	457
2003	406,564	31,694	900	12.82	452
2004	406,712	33,256	902	12.22	451
2005	402,776	33,926	904	11.87	446
2006	397,962	34,616	915	11.50	435
Secondary Schools					
2001	193,377	15,689	378	12.32	512
2002	191,499	15,586	379	12.28	505
2003	190,776	15,635	384	12.20	497
2004	187,657	16,085	385	11.66	487
2005	187,715	16,473	385	11.40	487
2006	186,226	16,685	388	11.16	480

Source: Ministry of Science, Education, and Sport.
Note: As of October 31 of each year.

The number of students in Croatian schools is decreasing due to demographic reasons; this occurrence has a direct impact on the student–teacher ratio. In addition, there is an increase in the number of teachers due to the inclusion of two obligatory foreign languages in the school curriculum. Students are starting to learn their first foreign language in the first grade of primary school, and the second foreign language in the fourth grade of primary school. In the past, students were commonly learning one foreign language, and foreign-language learning started in the fourth grade.

Parents do have the right to choose a school for their child. Private primary and secondary schools contribute to the diversity and quality of educational opportunities in Croatia. But additional research should be conducted in order to determine a degree to which the existing framework stimulates equity and efficiency in the allocation of resources. When determining resource allocations to certain programs, policymakers should take into account short-term outcomes (e.g., gained knowledge, skills, and

competencies) and long-term outcomes (e.g., employability of students that graduate from certain secondary school programs).

Equity in the allocation of resources is obtained by the Equalization Fund. The fund serves those towns and counties that do not meet the minimum standards as determined by MoSES. The main difference between towns and municipalities is, in fact, that municipalities and towns that are opening new schools do receive larger funds. It is important to emphasize that additional resources from equalization funds are received when the local governments prove that they are opening new programs. These are regular equalization fund resources, as just one town in Croatia is meeting the minimal standards, while the majority of towns and counties are meeting just 35–40 percent of the minimum standards.[25] The minimum standards, which are expenditure based, are set by the government each year and announced in the official periodicals. The additional funds are not included in the macroeconomic indicators of the cost of living stated by the central government. All of the municipalities and towns have the same index of growth, and the principle of solidarity and equality is followed. Still, if the municipality or town is wealthy they can devote more money to their schools. It is important that the state guarantees the same minimum standards for all.

It is important to emphasize that local governments are receiving additional funds for larger numbers of new students and for new schools. Nevertheless, when there is a decrease in the number of students, the funds for the particular school do not decrease. Since the school funding is not directly linked to inter-school competition for students, it is possible to conclude that the current educational finances do not stimulate a variety of educational offerings. Nevertheless, the variety of educational offerings is stimulated by additional financing for the education of minorities, while religious and private education stimulate the variety.

School management can encourage the efficient use of resources, but cannot significantly contribute to expenditure efficiency. Still, if the school director has an entrepreneur's attitude, she or he can do a lot for the school. The school director can organize donor events and collect money for the school. Also, it is common to rent the school facilities, though schools never solely rely on this type of income. Funds that are collected through donor events and the renting of school facilities are under the direct monitoring of the school founders (the local government) and the school owner (the school) for elementary schools. This cannot be done without the approval of a school founder (this would be the town for primary schools or a municipality for primary and secondary schools).

The teacher unions support teachers' rights and also have an impact on the national and local educational policies in Croatia. Since salary policies have never been decentralized, this responsibility is managed from the center, though unions also have an influence on salaries.

The majority of the schools have expressed their satisfaction with the decentralization of educational finances. However, there are some complaints—coming mainly from

schools—pertaining to the increased control of local governments over the allocation of local resources.

CONCLUSION

The Croatian education system is centralized in terms of schools' management and human resources, as well as in the establishment and implementation of the curriculum. Due to financial decentralization efforts, in the last three years, significant changes occurred in terms of resource allocation. Not all of them, however, are what is needed. While towns and municipalities are able to better relate to the needs of schools, there are significant disparities among the regions in terms of resource allocation.

When working from the central position, there is a desire to act equally towards everybody, though on certain occasions, this is neither possible nor appropriate. Hence, it is not surprising that ongoing decentralization efforts are accepted by interested parties, both at the level of local and central governments. The closure and opening of schools is left to local governments, which creates the opportunity for school network rationalization, but the distribution of the students among schools is not well defined and frequently interferes with the school networks. While certain municipalities managed to find appropriate school-network solutions, others are not in a position to plan an entirely efficient school network. These are school networks that include remote mountainous areas and islands, where the central government wants to retain the population and thus it is necessary to keep open schools with a small number of pupils. The local education-finance specialists plan the minimum standards at the local level and then address them to MoSES. These local government plans are based on macroeconomic guidelines from Ministry of Finance for each fiscal year. These plans are collected and negotiated with the MoSES financial experts, where the Ministry of Finance acknowledges the minimum standards in accordance with the yearly state budget. Hence, minimal standards that are prepared by the financial department of the MoSES are based on plans of 53 founders (transfer of school founding rights happened on January 1, 2002) and are accepted by the central government after negotiations with the Ministry of Finance. Based on these standards, each municipality and county has a clear idea of how much money they have for each year. Local government acts independently with regard to how they will divide these funds to the schools. If the municipality is rich, they can invest additional funds in education.

In the years to come, additional financial decentralization measures will be implemented. According to these measures, salaries for auxiliary personnel will be financed from local budgets. This, however, is the only portion of the salary policy that will probably be decentralized, as it would be extremely difficult to decentralize teacher salaries, which would lead to understaffing in the areas with lower income levels. The founder

of the schools will finance overheads and current maintenance, minor investments, and equipment. The founder will also finance capital investments, while the central state can intervene when the fiscal capacity of the local government is lower.

It is crucial to establish clearer educational financing policies to address several problems, such as the low number of students that are attending private schools or alternative programs offered by public schools. Prior to deciding on the allocation of resources, policymakers should determine the viability of the existing programs based on their outcomes.

It is important to emphasize that, in the period from 2001 to 2007, the financial decentralization system passed through many changes and improvements. The process of financial decentralization is influenced by the fact that there is no unique political decision on further financial decentralization efforts. One of the proposals was to place salary funds on a local level and assure money for salaries in equalization funds. The MoSES financial experts currently are working on an acceptable model for the decentralization of salaries, where local governments would have increased powers in deciding the level of salaries for teachers.

Current financing arrangements cannot address the problem of the lack of teachers in the remote areas. The trend of decreasing salaries will endanger the quality of teaching as well as professional selection mechanisms for teachers. Consequently, it is necessary to improve teachers' financial status.

School directors' readiness to hold managerial functions would enhance the variety of the educational offerings for their schools. Furthermore, it is necessary to extend teachers' leadership responsibilities, which should match their competences and experience. Various forms of in-service training would positively influence opportunities for a more flexible deployment of teachers. For this reason, it is necessary to establish leadership and management training courses for both teachers and school directors.

In his review of the status of decentralization efforts in four Central European countries, Davey (2002)[26] concluded that neither of these efforts offers an ideal solution. Still, examples from other countries might be useful in the further decentralization of Croatian education, and in structuring the formula for the division of funds.

SOURCES CITED

Act on the Territories of Counties, Towns, and Municipalities in the Republic of Croatia (1997) *Official Gazette*. No. 10.

Bajo, A. and M. Bronić (2005) *Fiscal Decentralization in Croatia*. Occasional Paper No. 25.

Constitution of the Republic of Croatia (1998) *Official Gazette*. No. 8.

Croatian National Bank (2008) Exchange Rates Archive (2001–2006). Available online: http://www.hnb.hr.

Davey, K. (2002) *Balancing National and Local Responsibilities: Education Management and Finance in Four Central European Countries*. Budapest: Local Government and Public Service Reform Initiative.

Declaration of the Law on Primary Schools (1990) *Official Gazette*. No. 59.

Law on Amendments to the Law on Primary Schools (2001) *Official Gazette*. No. 59.

Law on Amendments to the Law on Primary Schools (2005) *Official Gazette*. No. 76.

Law on Amendments to the Law on Secondary Schools (2001) *Official Gazette*. No. 59.

Law on Amendments to the Law on Secondary Schools (2005) *Official Gazette*. No. 81.

Law on Areas of Special State Concern (2002) *Official Gazette*. No. 88.

Law on Financing Units of Local Self-government and Government (2001) *Official Gazette*. No. 59.

Law on Preschool Education (1997) *Official Gazette*. No. 10.

Ministry of Finance (2001) "Decentralization of Public Sector in Croatia." Available online: http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN017656.pdf.

Ministry of Science, Education, and Sports (2005) Unpublished data.

——— Education, and Sports (2006) Unpublished data.

——— (2007) "Decision on Subsidized Home Loans." Available online: http://www.mzos.hr.

Regulation of Names for Work Positions and Coefficients of Each Specific Position in the Public Service (2001) *Official Gazette*. No. 38.

Regulations of Methods of Disposition of Funds from the State Budget and Measures of Co-financing Preschool Education (1997) *Official Gazette*. No. 134.

Regulations on Primary School Education of Students with Developmental Difficulties (1991) *Official Gazette*. No. 23.

Regulations on Secondary School Education of Students with Developmental Difficulties and Severe Developmental Difficulties (1992) *Official Gazette*. No. 86.

State Budget of the Republic of Croatia for 2005 (2004) *Official Gazette*. No. 171.

State Budget of the Republic of Croatia for 2006 (2005) *Official Gazette*. No. 148.

State Budget of the Republic of Croatia for 2007 (2006) *Official Gazette*. No. 137.

NOTES

1 Constitution of the Republic of Croatia (1998) *Official Gazette*. No. 8.

2 Ministry of Finance (2001) Decentralization of Public Sector in Croatia. Available online: http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN017656.pdf.

3 Law on Amendments to the Law on Primary Schools (2001) *Official Gazette*. No. 59.

4 Law on Amendments to the Law on Secondary Schools (2001) *Official Gazette*. No. 59.

[5] Law on Financing Units of Local Self-government and Government (2001) *Official Gazette*. No. 59.

[6] Of the 570 local government units, 53 of them assumed the obligation of financing the decentralized functions in 2001. In addition, from 2002, the financing of fire departments was taken on by 83 local government units (municipalities and cities). For more details on the process of fiscal decentralization, please see Bajo and Bronić 2005.

[7] The local self-government system in Croatia includes 421 municipalities, 122 towns, 20 counties, and the City of Zagreb (a special territorial unit with the status of a county). More details are in the Act on the Territories of Counties, Towns, and Municipalities in the Republic of Croatia (1997). *Official Gazette*. No. 10.

[8] Law on Amendments to the Law on Primary Schools (2005) *Official Gazette*. No. 76.

[9] Law on Amendments to the Law on Secondary Schools (2005) *Official Gazette.* No. 81.

[10] Regulation of Names for Work Positions and Coefficients of Each Specific Position in the Public Service (2001) *Official Gazette*. No. 38.

[11] The parity of HRK to EUR in the time period 2001–2006 ranged from HRK 7.3 to 7.7 to EUR 1. The Croatian National Bank (2008) Exchange Rates Archive (2001–2006). Available online: http://www.hnb.hr.

[12] Declaration of the Law on Primary School (1990) *Official Gazette*. No. 59.

[13] Regulations on Primary School Education of Students with Developmental Difficulties (1991) *Official Gazette*. N0. 23.

[14] Regulations on Secondary School Education of Students with Developmental Difficulties and Severe Developmental Difficulties (1992) *Official Gazette*. No. 86.

[15] State Budget of the Republic of Croatia for 2007 (2006). *Official Gazette.* No. 137.

[16] This method still creates variations in funds allocated to schools. A school with a large number of students receives substantial amounts of money, even in the cases when this money is not needed. Conversely, schools with a small number of students commonly lack the necessary funds, given the lower number of students. For example, smaller schools are usually placed in remote areas that have cold winters. Therefore, it is likely that they would spend most of the allocated money on heating.

[17] According to MoSES unpublished data, the secured amounts for 2005 are: HRK 2,000,000 (EUR 264,860) for primary schools, and HRK 3,800,000 (EUR 503,230) for secondary schools.

[18] Law on Preschool Education (1997) *Official Gazette*. No. 10.

[19] Regulations of Methods of Disposition of Funds from the State Budget and Measures of Co-financing Preschool Education (1997) *Official Gazette*. No. 134.

[20] State Budget of the Republic of Croatia for 2005 (2004) *Official Gazette*. No. 171.

[21] State Budget of the Republic of Croatia for 2006 (2005) *Official Gazette*. No. 148.

[22] This had already started in 2007. For more details, see MoSES (2007) Decision on Subsidized Home Loans. September. Available online: http://www.mzos.hr/.

[23] Ministry of Science, Education, and Sports (2005) Unpublished data.

[24] The Law on the Areas of Special State Concern (2002) *Official Gazette*. No. 88.

[25] Ministry of Science, Education, and Sports (2006) Unpublished data.

[26] Davey, K. (2002) *Balancing National and Local Responsibilities: Education Management and Finance in Four Central European Countries*. Budapest: Local Government and Public Service Reform Initiative.

The First Careful Step: Education Decentralization and Finance in the Republic of Macedonia

Jan Herczyński, Jasna Vidanovska, and *Nuri Lacka*[1]

Interdisciplinary Center for Mathematical and Computational Modelling ICM Warsaw University, Poland
Insterdyscyplinarne Centrum Modelo-wania Matematyczne i Komputerowego ICM
Uniwersytet Warszawski, Polska

Executive Summary

Emerging during the Balkan wars of the 1990s, Macedonia voted for an independence referendum and escaped the armed conflict that destroyed many other former Yugoslav republics. But it experienced its own ethnic strife and limited civil war in 2001 that ended with the signing of the Ohrid Agreement. Since then Macedonia started a unique attempt to defuse ethnic tension through a far-reaching decentralization of all major social functions.

The 2001 Ohrid agreement brought about a complete turnaround in the policies pursued by the Macedonian central government, which had before, in response to economic decline following independence, centralized the country. For over a decade, the education sector was financed directly from the central budgets, because Yugoslavian-type local councils were too poor to even pay teacher salaries. No longer autonomous, schools were made the direct responsibility of the Ministry of Education and Science (MoES). School boards powers were severely restricted, and even their statutory powers, such as opinions regarding the appointment of school directors, were frequently disregarded by MoES. The Ohrid Agreement reversed this trend. Between 2004 and 2005, the process really began when new structures of financing were put in place and more responsibilities were devolved from the central government to local governments.

Macedonia, like all post-communist countries, was facing a serious demographic decline, which particularly affected education. Between 1999–2003, the number of students in primary school decreased about nine percent, class size decreased by 3.7 percent, and teachers by 1.7 percent. Still, Macedonia's student–teacher ratio remained compatible with the OECD average: 16.5 in primary education and 13.6 in secondary. As a percentage of GDP, expenditures for primary and secondary education had fallen from 3.19 percent in 1998 to 2.84 percent in 2003.

The budgeting system developed in Macedonia recognized different sources of funds for schools: from the state budget, own revenues (including rent of school properties and some payments from parents, such as a participation fee in secondary education), and grants and donations (mainly from foreign donors); schools had to prepare a separate financial plan for each revenue stream. In reality, extrabudgetary resources covered only a fraction of overall school's budget and no funds could be transferred between categories even if shortages appeared. Of a typical school's budget, about 85–90 percent was spent on salaries, eight percent on goods and services, four percent on student transport, and two percent on investments.

The budget for teachers' salaries was calculated in two steps, on the basis of two norms. The number of teaching positions first was determined on the basis of teaching plans for every grade in every type of school as established by the Bureau for the Development of Education. Class size was also subject to its approval. The number of classes was then used to allocate teaching positions. Salaries were awarded according to a set of criteria on qualifications, seniority, and other factors in addition to a base coefficient, the UNR, or normative unqualified employee, the amount of which has only been amended once, in 2002.

Interestingly, equity in education has internalized divisions over ethnicity and rural/urban divisions within the territorial-administrative units of Macedonia. A complicated portrait emerges from a comparison of schools, class sizes, and expenditures per student in Skopje, large cities (over 50,000 inhabitants), small cities, rural municipalities, and Macedonia as a whole. Indeed, the demand for education is so high in some Albanian areas, whether urban or rural, that students attend school in morning and afternoon shifts. This is less likely in Macedonian schools, partly because of different birth rates in the two communities.

The Law on Local Government of 2002 was the first of a series of legal acts, including the Law on Local Government Finance of 2004, amendments to the laws on primary and secondary education in the same year, and also the Law on Territorial Division—redefining municipality boundaries to reduce the number from 124 to 85—that completely changed the legal and financial framework within which local governments operate.

In particular, local authorities were given more opportunities to levy local fees and charges, and received block, categorical, and capital grants from the central government, as well as shares of personal income tax. An equalization fund, albeit rather weak, was also put into place.

Phase I of decentralization transferred responsibilities for maintenance, repairs and material expenditures to municipalities. While the responsibilities regarding "establishing, financing, and administering of primary and secondary schools" were transferred to municipalities, school boards were re-empowered to select and dismiss the school director, form a budget, and adopt school statutes. However, numerous legal intricacies regarding the ownership of school facilities have hampered and delayed their transfer to local governments. Phase II of decentralization included transfer of responsibilities for salaries.

The decentralization process in Macedonia was accompanied by many training programs for local officials (usually funded by donors), by production and distribution of guidebooks and other supportive documentation for both local administrations and the school boards, and by some institutional framework designed to limit conflicts (managed by the Ministry of Local Governments). Nevertheless, the process was not easy to implement, due to opposi-

tion from many sources within the country. Consolidation of municipalities was one of the most controversial steps.

Certainly, many rural municipalities faced an extraordinary challenge in funding and maintaining their schools, especially in rural and mountainous areas. To address this issue, MoES adopted specific formulas for allocation of categorical and block grants in education. The lump sum in the allocation formula is provided for the basic fixed costs of education. The per-student amount is then weighted according to population density. A separate formula was used for the categorical grant for student transportation. Overall, Macedonia has been successful in designing and implementing a formula driven system of financing education.

By all accounts, education decentralization has given local governments real power, and they have taken seriously their duties to assess, manage, and rebuild their schools, optimize the networks, and improve the budgeting process. Urgent tasks for the future include addressing past school debts, completing the transfer of ownership of school properties, introducing proper monitoring procedures and tools, and adopting a modified normative on school conditions and teaching aids and equipment. None of this could have happened without the overriding political determination to implement the Ohrid Agreement and without a long planning and preparation stage.

INTRODUCTION

The Republic of Macedonia emerged from the disintegrating Socialist Federal Republic of Yugoslavia in a relatively calm manner, through an independence referendum and without the armed conflicts that devastated many other former Yugoslav republics. Nevertheless, the country faced quite severe tensions. Some of those tensions were external in nature, due to continuing conflicts in surrounding countries (the conflict in Kosovo and tension with Greece over Macedonian national symbols and its constitutional name, see ICG 2001a). The main source of internal tension was the economic collapse of the country, with GDP to this day still more than 20 percent below its 1990 level. The country also experienced a short-lived armed insurrection in 2001 (a spillover from the conflict in Kosovo, see ICG 2001b), which was terminated with the signing in Ohrid of the Framework Agreement. The Ohrid Agreement defines the basic directions of the future development of Macedonia, namely, the devolution of significant powers to municipalities in many sectors of the public life, including education.

The decentralization effort undertaken in Macedonia since 2001 is a dramatic and complete reversal of policies pursued since independence in 1992. Indeed, in response to economic difficulties and the general turmoil in the surrounding Balkan countries, the newly independent Macedonia abandoned the Yugoslav tradition of local self-government and centralized all sectors. The 34 former municipalities, with their far-reaching autonomy and financial independence, were broken in 1996 into 124 much smaller and much weaker jurisdictions, with very little authority and very small budgets. The ill-defined revenues of municipalities, especially a very complex and irrational equalization system, together with inadequate budgetary control and poor auditing, quickly saddled the municipalities with ever-growing debt.

The centralization was particularly severe in the education sector, within both the political and financial dimensions. The political dimension of centralization was to break the schools' autonomy and to make schools directly responsible to the Ministry of Education and Science (MoES). Thus, although formerly influential school boards still functioned, their powers were taken away and transferred to the ministry. All responsibility for the development of schools, their closure and opening, was taken over by MoES. The most extreme and painful example of this process was the nomination and dismissal of all school directors in the country by the decision of the minister himself. The school boards retained some advisory role, but their voice was routinely disregarded, leading to politicization of the process of selection of school directors. The resulting turnover of school directors had a lasting and damaging effect on education. At the same time, centralization meant that some schools received preferential treatment due to their better links with the responsible ministry officials.

The financial dimension of centralization was no less extreme than the political one. Budgets of all the schools were decided by the MoES, which decided on the

use of funds allocated from the state budget, and the approval of which was required for the use of funds earned by the schools. All school expenditures went through the centralized treasury system operated by the Ministry of Finance. Thus, for instance, if a student wanted to buy a subscription to *Drugarche* (*Little Friend*, a weekly for children aged 7–12), the money for this purpose had to be included in the financial plan of the school, in the own revenues part of the budget. Parents paid the subscription to the school, the school deposited the funds in the treasury system, the money after a few days reached the school account of the treasury system, and the director finally authorized the payment to the publisher. If the subscription was not included in the financial plan, the director could not make the payment order, with the Ministry of Finance responsible for verifying that all transactions were within the pre-defined limits, by every school, by every detailed budget line, and by the source of funds (budget funds, own revenues, grants, or other).

Nevertheless, as already indicated, the new thinking about public governance in general, and about the management and financing of education in particular, following the Ohrid Agreement, very strongly favors decentralization. Initially construed as a way of resolving ethnic tensions, decentralization is now seen as a new way for the evolution of the Macedonian state. For the education sector, this poses an entirely new set of challenges and difficulties, and much to the credit of Macedonian authorities, a serious debate and analysis is ongoing, with a growing number of ministries actively involved in the shaping of the new structure of responsibilities and financing. Among the most active of those is the Ministry of Education and Science, which adopted an Education Decentralization Strategy in 2004. MoES has thus made the first careful steps towards decentralization of education and already has accumulated significant decentralization experiences.

Our report is structured to reflect the initial situation of complete centralization, the preparations to begin decentralization in 2004–2005, and the first experiences of decentralization as implemented in 2005. First, we analyze the financing of the initial centralized system, with special emphasis not only on the normative budgeting procedures, but on the equity and efficiency of the Macedonian education system. Then we review the preparations for decentralization, and the planning of the MoES to manage and finance decentralized education. We outline this new experience in the last section.

MANAGEMENT AND FINANCING OF CENTRALIZED EDUCATION SYSTEM

In the introduction, we described some extreme examples of education centralization in Macedonia. The primary motivation to centralize was to control spending, especially the spending on salaries, in a period of fiscal constraints. A system of allocation norms

for salaries, and for material expenditures was meant to ensure a basic level of equity of school funding, and in some measure succeeded, although the achievements in this area are mixed. However, this blocked any local initiatives in the system, while the centralized government was unable, despite its considerable powers in the sector, to ensure efficiency and equity. In particular, it was unable to react to growing tensions and to shifting demographic patterns. The many small schools in rural communities continue to provide deficient education at a very high unit cost, while vocational schools are underinvested in and still tuned to traditional Macedonian industries that are no longer operating.

Overview of Macedonian Education

We begin with a short preview of the main indicators over the past years, such as the number of schools, students, classes, expenditures, average cost per student, and average cost per class. Table 1 provides the basic indicators for primary education, where we have included only the regular primary schools[2] (this approach is chosen because there are large variations in financing of different types of schools).

Table 1.
Indicators for Primary Education

School Year	1999–2000	2000–01	2001–02	2002–03	2003–04
Number of schools	342	342	342	343	344
Students	254,828	248,469	244,211	238,050	232,143
Classes	10,328	10,097	10,065	10,036	9,940
Teachers	12,562	12,240	11,968	12,277	12,351
Expenditures (MKD)	4,098,829,790	4,091,082,203	4,023,339,026	4,446,298,723	4,768,792,293
Average cost/ student (MKD)	16,085	16,465	16,475	18,678	20,542
Average cost/class (MKD)	396,866	405,178	399,736	443,035	479,758
Class size	24.6	24.6	24.3	23.7	23.3
Student–teacher ratio	20.3	20.3	20.4	19.4	18.8

Between 1999 and 2003, the number of students in primary school decreased by about 8.9 percent. This was accompanied by a decrease in the number of classes by 3.7

percent and of teachers by 1.6 percent. It seems that the Macedonian education system was unable to adjust the teaching force to the decreasing student population, and the student–teacher ratio decreased by only 7.3 percent. At the same time, the class size decreased by about 5.2 percent. Still, the student–teacher ratio is in line with OECD averages of 16.5 students per teacher in primary education, and 13.6 students per teacher in secondary education (*Education at a Glance* 2003). The following table shows the evolution of student–teacher ratio, for primary and secondary education.

Table 2.
The Evolution of the Student–teacher Ratio (Primary and Secondary Education)

Year	Primary			Secondary		
	Students	Teachers	Student–teacher Ratio	Students	Teachers	Student–teacher Ratio
1999–2000	254,828	12,562	20.29	91,083	5.350	17.02
2000–2001	248,901	12,240	20.34	91.644	5.420	16.91
2001–2002	244,211	11,968	20.41	93,206	5.545	16.81
2002–2003	238,060	12,277	19.39	94,854	5.696	16.65
2003–2004	232,143	12,351	18.80	94,973	5.171	18.37

Between the school years 2001–2002 and 2003–2004 the average *cost per class* increased from MKD 399,736 to 479,759, an increase of 20 percent. This is due to an increase of 19 percent of UNR (normative unqualified employee) in 2002 (see the section on financing). In the same time, the *average cost per student* increased from MKD 16,475 to 20,542 , an increase of 25 percent. This increase is slightly higher because of a three percent decrease of the average class size at that time.

Table 3 presents the main indicators for secondary education. Here, from the total of 91 secondary schools in Macedonia of different types,[3] we have selected 81 regular schools (gymnasia, vocational, and mixed). Due to the lack of data we can present only figures for two consecutive school years.

As we can see from Table 3, the average cost per student in 2003–2004 was MKD 19,604 and the average cost per class was MKD 612,144. This is somewhat lower than the average for primary schools, because the above tables include the budget funds only (funds received from the state budget). Since the own revenues of schools account for about 18.9 percent of total secondary school budgets (see section on financing), we obtain that Macedonian education is in line with OECD norms, with secondary schools about 20 percent more expensive per student than primary schools.

Table 3.
Secondary Education Finance

Only Regular Schools Included	School Year	
	2002–03	2003–04
Number of schools	81	81
Students	92,553	93,267
Classes	2,945	2,982
Expenditures (MKD)	1,702,082,524	1,828,395,328
Average cost per student	18,390	19,604
Average cost per class	577,957	613,144

Financing Procedures

The education budget in fiscal year 2003 represented 13 percent of the state budget and 2.8 percent of GDP.

Table 4.
Education Expenditures as Percent of State Budget (2003)

	1998	1999	2000	2001	2002	2003
Primary education	10.54	9.13	7.90	7.19	6.74	9.23
Secondary education	4.00	3.50	3.00	2.89	2.66	3.55
Total	14.54	12.63	10.90	10.08	9.40	12.78

Table 5.
Education Expenditures as Percent of GDP (2003)

	Percent of GDP					
	1998	1999	2000	2001	2002	2003
Primary education	2.31	2.17	1.93	1.84	2.00	2.05
Secondary education	0.88	0.83	0.73	0.74	0.79	0.79
Total	3.19	3.00	2.66	2.58	2.79	2.84

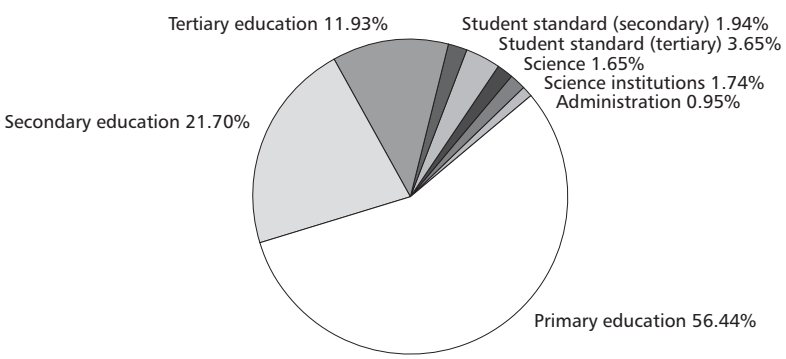
Most of the education budget is spent on primary and secondary education.

Table 6.
Share of Primary and Secondary Education in the Total Budget for Education (2003)

	Percent of Education Budget					
	1998	1999	2000	2001	2002	2003
Primary education	55.45	57.86	57.33	55.20	53.07	56.44
Secondary education	21.04	22.19	21.80	22.21	20.91	21.70
Total	76.49	80.05	79.13	77.41	73.98	78.14

Figure 1 shows this division in more detail for 2003.

Figure 1.[4]
Allocation of the Education Budget



Current sources of education financing are:

- The state budget,
- Income from institutions (such as rent of premises),
- Own income,[5] and
- Grants and donations from foreign donors.

The main source of education financing is the education budget (95 percent in primary and 80 percent in secondary education). Extrabudgetary resources are used to compensate a very limited level of budget allocations, especially maintenance.

Table 7.
Structure of Expenditure in Primary and Secondary Education by Sources (2003)

Level	Budget (%)	Income from Institutions (%)	Self-financing (%)	Grants (%)
Primary	94.34	0.36	5.18	0.12
Secondary	79.65	1.05	18.92	0.38

It must be stressed that every school must prepare a separate financial plan for each of four revenue streams. Schools have separate accounts for each source of income and are not allowed to transfer money from one account to another without permission from the ministry (and since 2007, without the permission of the appropriate local government).

Between 1996–2004, the Ministry of Education and Science had a central role in the entire process of budgeting and execution of education funds. According to instructions given by the Ministry of Finance, it prepared financial plans for individual schools. In order to do this, MoES must reconcile the overall insufficient allocation provided by the Ministry of Finance in the budget law with the detailed norms and criteria for staffing levels, good and services (maintenance), the so-called *transfers* (transportation and accommodation of students), and capital investments. Those norms and criteria were approved by the ministry itself, and usually could not be satisfied with the funds provided in the budget law. When the funds were insufficient, MoES protected salaries and then heating expenditures. During the execution of the budgets, the Ministry of Finance approved transfers monthly by budget lines and controlled the spending of money.

About 85–90 percent of the education budget is generally spent on salaries, eight percent on goods and services, four percent on student transport, and two percent on investments.

Table 8.
Structure of Expenditures by Budget Categories, Primary Education[6] (1998–2003)

Year	Salaries	Maintenance	Student Transport and Accommodation	Investments
1998	84.65	8.40	4.32	2.63
1999	86.41	7.47	4.44	1.69
2000	82.37	7.25	8.30	2.08
2001	83.88	9.21	5.35	1.56
2002	81.75	10.95	5.93	1.37
2003	85.68	7.85	4.25	2.23

A comparison of primary and secondary education shows that there are no expenditures on transportation for secondary education (there is only a legal obligation of the state to transport students to schools for non-obligatory education), so correspondingly, the shares of expenditures on salaries and maintenance are somewhat lower.

The criteria for the allocation of funds of each category are different and will be described separately.

Table 9.
Structure of Expenditures by Budget Categories, Secondary Education (1998–2003)

Year	Salaries	Maintenance	Student Transport and Accommodation	Investments
1998	88.90	8.11	0.13	2.86
1999	90.06	7.08	0.11	2.75
2000	88.21	6.98	2.54	2.27
2001	86.73	8.94	1.19	3.13
2002	85.01	12.04	0.00	2.95
2003	89.60	8.16	0.00	2.24

Staff Salaries

Staff salaries are calculated in two steps, on the basis of two sets of norms. The first set of norms defines the employment level for each school, controlled directly by the ministry. The second step consists of calculating the salaries of teachers and of non-teaching staff.

The number of teaching positions is determined on the basis of the programmatic standards (teaching plans for every grade in every type of school, established by the Bureau for the Development of Education).[7] The ministry also uses class-size norms, namely 25 to 34 students per class (smaller classes may be formed only with the ministry's approval), for both the primary and secondary schools. Every school year, for every school and every grade, the ministry monitors the division of students into classes, intervening if they are too small.

The number of classes is then used to allocate teaching positions for each school. The total required teaching time (number of lessons per week) is added for all classes for each school, and divided by 20: that is the weekly teaching load of the teacher, used to yield the number of teaching positions. Even fully-employed teachers will be paid only for the classes they actually teach each year.

Teachers are employed in the school by the director, after a selection process, in which the school board also participates. After one year, a new teacher has to pass an exam. The teacher may be employed for a fixed time (usually for one year, extended yearly) or for an indeterminate period.

A separate set of norms governs the employment of non-teaching staff, as described in Table 10.

Table 10.
Employment Norms for Primary Schools[8]

Position	Criteria
Director	One per school that is a legal entity
Deputy director	For schools with over 24 classes
Pedagogue	One for up to 24 classes, two for above 24 classes
Administrator	The same
Librarian	One half for up to 24 classes, one for over 24 classes
Cleaning staff	Depending on the school area, number of shifts, and type of heating
Maintenance staff	One guard, one technical administrator, one heating operator, plus additional staff for satellite schools

Determination of salaries is based on specific criteria that include the following elements:

1) Education level of staff,
2) Work experience (years of employment),
3) Managing position,
4) Special conditions (joined grades teaching, special classes),
5) Work in mountains and places near the border, and
6) Pedagogic titles.[9]

The basic unit for the calculation of salaries is the UNR (normative unqualified employee). Between 1992 (when the system was introduced) and 1994, the value of UNR was changed every year according to inflation. Between 1994 and 2002, the value of UNR was frozen at MKD 3,370. In 2002, the UNR was increased 19 percent of its present value of MKD 4,000.

The main factor in calculating salaries is the coefficient for employees' education level.[10]

Table 11.
Coefficient for Employee Education Level (Primary and Secondary Schools)

Education Level	M-r	VSP	VSS	SSS	NSS	VKV	KV	PKV	NKV
Primary	3.00	2.8	2.4	1.8	1.265	1.8	1.7	1.265	1.265
Secondary	3.05	3.0	2.3	1.7	1.265	2.3	1.7	1.265	1.265

Notes: M-r and VSP–university degree; VSS–post-secondary degree; SSS, VKV, KV–secondary school; PKV, NKV–primary school.

Additionally, for each year of experience a teacher gets a 0.5 percent wage increase. The school director receives a supplementary pay of 1.12 UNR, and there are also other coefficients for the deputy director, the pedagogue, etc.

Here is an example of teacher salary calculation, for a primary school teacher with 20 years experience, university training (VSP), and full teaching load of 20 lessons per week. The value of UNR is multiplied by coefficient 2.8 (highly educated) to get a net salary of MKD 11,200. Moreover, there is a supplement of 10 percent due to 20 years of service, that is MKD 1,120. Those who work in special conditions get an additional 14–30 percent of UNR, for working in the mountains 12–48 percent of UNR, and for a pedagogic title six to 14 percent of UNR. Together with all legal contributions such as health insurance, pension, taxes, etc., the average gross teacher salary in primary education is MKD 20,650.[11] The distribution of salaries is not linked to real teacher performance.

Technical and administrative staff in primary education receive on average MKD 7,000–8,000 net or MKD 11,700–13,440 gross salary per month. The minimum net salary allowed by the law is MKD 5,060 per month.

For a secondary education teacher with a university education (VSP), we use coefficient three, and she or he has an average monthly salary of MKD 17,560 net (MKD 22,125 gross). The average monthly salary for technical staff in secondary education is MKD 7,500–10,000 net or MKD 12,600–16,800 gross.

Each month schools are obliged to submit a list of staff and a calculation of staff salaries to the Ministry of Education and Science. After checking all the data, the Ministry of Education and Science submits the total calculation of net and gross salaries for all the schools to the Ministry of Finance for approval. After that, these funds are disposable to a school's treasury account. This complex control mechanism was introduced a few years ago on the advice of the IMF.

This complicated system of salaries has been in operation in Macedonia since 1992. The specific feature of the system is a large number of numerical coefficients, which have not changed since then. Of all the coefficients used, the main ones relate to the education level of the staff (provided in the previous table). Their work experience receives

a very low weight, and therefore the teacher salaries do not change much during their professional careers. The school director receives about 40 percent more than an average teacher. The main change introduced in recent years into the system was the increase of UNR. In the last 11 years, the value of UNR was changed only once, in 2002.

Goods and Services

Until 2005, funds for maintenance (good and services) had to be planned and allocated according to criteria prepared by the departments for planning of the ministry. Because of the restrictive budget policy, there was not enough money to cover the real needs of schools, and debts regularly became a problem. The previous year's spending was also taken into account during the process of planning, as the starting point for possible incremental changes.

In primary education, electricity, water, taxes, city rent, and communal expenses had been fully paid monthly after the receipt of the invoices by the schools. In secondary education, the ministry covered only part of the expenses, using criteria such as space, and classes, while the rest was covered by the schools' own incomes (on average around 20 percent).

Heating costs were planned and paid according to the school space (square meters), number of shifts (1, 1.5, 2, 2.5, or 3),[12] type of heating (wood, oil, coal, central heating), and current prices. The allocation was based on norms defined and maintained by MoES, often defined in kind (liters of heating oil, cubic meters of wood), and classifying of schools based on the number of shifts. Of course, those norms cannot and do not depend on key factors, which in reality influence the heating costs, such as the quality of windows, and the control over keeping the windows closed.

Other costs like telephone, post, office supplies, teaching materials, tools, cleaning materials, etc., are allocated to schools on the basis of the number of classes.

Transfers (Student Transport and Accommodation)

Transport is organized only for primary school students who live more than two kilometers from school.

Schools select the transportation company (the best offer in the tender organized by the school) and sign the contracts. Every month they submit to the ministry the number of students transported, distance, and transport costs, on the basis of invoices received. The ministry paid those invoices. Since 2005, this responsibility was transferred to municipalities. On average, 20,000 students are transported every month. The costs depend on the distance, but average costs are MKD 1,000 per student monthly.

Moreover, there are 14 dormitories in the primary education system. On average, 300 students are accommodated every school year. About 200 students use dormitories, while about 100 students are residents in households (with families taking care of

them). The ministry pays MKD 3,000 per student monthly for student accommodation. Decentralization of those institutions and their handing over to local governments was delayed until 2007.

Students Standard (Secondary)

Since 2002, student transportation and accommodation for secondary education was transformed into a separate program, called the *student standard* (student transportation and accommodation for primary education was not separated). The student standard includes transfers for student accommodation, regular medical check-ups, equipment, reconstruction of dormitories, and scholarships for talented students. The structure of student standard (secondary) allocation is shown below.

Table 12.
Student Standard Budget 2003 (Percent)

Accommodation	74.28
Medical check-ups	1.63
Equipment	1.23
Reconstruction	5.48
Scholarships for talented students	17.38

The ministry used to pay only one half of the costs for student accommodation or MKD 4,080 monthly per student. The other half was paid by the students. All interested students can find a place in the dormitory, as the number of places is much higher than the demand.

There are 25 dormitories in secondary education. About 2,500 students are accommodated every year; they pay their room and board. Scholarships (grants) for talented students are MKD 2,000 per month (for 9 months). About 500 scholarships are disbursed every year.

Capital Investments

The allocation of capital investment funds is done according to a special program, approved by the Minister of Education and Science. Due to the restrictive budget there are not enough funds to invest in every school, therefore only priority cases are included in this program. Resources from external grants (donations) are mostly used for capital expenses, especially for school equipment, computers, furniture, etc.

Problems of External Efficiency

The description of financing procedures highlights some serious problems of the external efficiency of Macedonian education. There are no built-in mechanisms that control the spending of the schools. Since the effort to save can only be made at the local level, but the savings accrue at the central level, the schools do not cooperate with the ministry in this respect. For instance, if the schools manage to use less heating oil than prescribed by the norms (see above), the ministry will just need to pay less. If the school uses more heating oil than planned, MoES will cover the bill.

The lack of incentives to improve efficiency is also seen in the large number of expenditure items that are paid by MoES based on received invoices. The schools have no interest in, for instance, shutting down all its electrical equipment in order to decrease electricity costs.

The main non-salary expenditure item is heating, and it is here that the lack of efficiency mechanisms can be most dramatically seen. The allocation of funds is based on the surface of heated space, and therefore the school has no interest in reducing this space even if student numbers are decreasing. Over years, this has led to some very inefficient uses of school space, with very large rural schools serving a handful of students (see below).

The situation is slightly better with the secondary schools, which do pay a proportion of maintenance costs (about 20 percent) in a sort of co-financing scheme. This makes the schools more sensitive to efficiency issues.

Internal Efficiency of Macedonian Education

The discussion of the internal efficiency of the education system, that is, of how efficient the system is in keeping the students in the schools once enrolled, is always difficult because it requires careful analysis of what happens to the student cohort over years. In the case of Macedonian education, we are able to make some estimates about the primary education for the whole country, and they also are broken down by the language of instruction for the two main ethnic communities, Macedonians and Albanians. This approach allows us to disregard the problems of students changing schools. For this analysis we have used student numbers by grade, as shown in the following tables:

Table 13.
Students by Grade (Primary)

Grade	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005
1	30,889	29,956	29,277	28,060	26,951	26,321
2	32,044	30,326	29,392	29,083	27,809	26,714
3	31,487	31,517	30,052	29,102	28,874	27,766
4	31,804	31,080	31,244	29,768	29,114	28,606
5	33,100	31,521	30,928	30,783	29,646	29,070
6	32,956	31,716	30,636	30,059	30,253	29,011
7	31,461	32,115	31,140	30,046	29,809	29,787
8	31,087	30,670	31,445	30,284	29,687	29.218
Total	**254,828**	**248,901**	**244,114**	**237,185**	**232,143**	**226,493**

Table 14.
Number of Students in Schools with Albanian-language Teaching

Grade	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005
1	10,265	10,247	9,847	9,684	9,240	8,935
2	10,479	10,183	10,042	9,853	9,671	8,988
3	9,861	10,482	10,025	9,745	9,923	9,587
4	9,724	9,919	10,227	9,826	9,828	9,682
5	9,927	9,666	9,641	9,878	9,708	9,691
6	9,571	9,653	9,105	9,341	9,843	9,580
7	9,021	9,314	9,381	9,101	9,210	9,671
8	8,638	8,705	8,910	8,924	8,923	9,012
Grand Total	**77,486**	**78,169**	**77,178**	**76,352**	**76,346**	**75,146**

Table 15.
Number of Students in Schools with Macedonian-language Teaching

Grade	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005
1	19,593	18,773	18,601	17,487	16,834	16,542
2	20,521	19,125	18,483	18,362	17,260	16,878
3	20,647	20,013	19,106	18,472	18,109	17,293
4	21,072	20,211	20,057	18,988	18,416	18,073
5	22,414	21,117	20,560	20,147	19,190	18,683
6	22,606	21,315	20,824	20,017	19,655	18,752
7	21,726	22,062	21,043	20,263	19,874	19,395
8	21,833	21,289	21,796	20,679	20,075	19,534
Grand Total	**170,412**	**163,905**	**160,470**	**154,415**	**149,413**	**145,150**

As can be seen from the tables, every school year the total number of primary students decreases. There are three main reasons for this:

1) demographic changes (birth rate decrease, as seen from the decrease of enrollment in grade 1),[13]
2) students dropping out during the school year, and
3) emigration (mainly economic).

The second and third reasons effect the decrease of student numbers from one school year to another, when successive grades are considered. However, it is impossible to distinguish between those two mechanisms, due to a lack of data. Therefore, in what follows, we treat both types of students disappearing from the school as dropouts, thus our data overestimates the dropout rate (and underestimates the internal efficiency of Macedonian primary education). The repeat rate in primary education is very low and is not taken into account due to lack of data, too.

The overall dropout rate for primary education is about 1.46 percent. According to the teaching language, the dropout rate for Macedonian pupils is 1.11 percent, whereas for Albanian students it is higher, at 1.81 percent. It is an important, open question whether this is due to more Albanian students abandoning school for social and economic reasons or to higher emigration among the Albanian population.

Table 16 follows three cohorts of students in six consecutive school years. Those are students from first, second, and third grade in the school year 1999–2000, reaching grades six, seven, and eight in the school year 2004–2005, for Albanian-language

instruction. Below, the yearly dropout rates are provided for each of the three groups of students. Cumulative dropout rates are provided in the rightmost column.

Table 16.
Dropout Rates in Albanian-language Schools

Grade	1999–2000	Grade	2000–2001	Grade	2001–2002	Grade	2002–2003	Grade	2003–2004	Grade	2004–2005	Percent
1	10,265	2	10,183 (0.80%)	3	10,025 (1.55%)	4	9,826 (1.99%)	5	9,708 (1.20%)	6	9,580 (1.32%)	7.15
2	10,479	3	10,482 (–0.03%)	4	10,227 (2.43%)	5	9,878 (3.41%)	6	9,843 (0.35%)	7	9,671 (1.75%)	8.35
3	9,861	4	9,919 (–0.59%)	5	9,641 (2.80%)	6	9,341 (3.11%)	7	9,210 (1.40%)	8	9,012 (2.15%)	9.42

The data for the school year 2000–2001 represents an anomaly, which is an increase in the cohort size. This is due to the special conditions during the regional conflict in that year, probably due to a temporary immigration of Albanian students from Kosovo. The data suggests that the dropout rates are higher for higher grades. The cumulative dropout rates after six years of over seven percent are very worrying.

Table 17 presents the dropout phenomenon in a different way; namely, we assess the average dropout rate in separate school years (so the cohorts of students are different in each year, unlike in the previous analysis). For each school year, we provide the number of students from grades one to seven in the previous year (meaning those who should continue to attend school in the current year), as well as the number of student attending the grades two until eight in the current year (those who have continued to attend from the previous school year). The average of those five yearly dropout rates is 1.81 percent. This must be considered a very high dropout rate, which should be addressed by the ministry.

Table 17.
Average Dropout Rate (Separate School Years, Primary Education)

	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005
Students 1–7 (previous year)	68,848	69,464	68,268	67,428	67,423
Students 2–8 (current year)	67,922	67,331	66,668	67,106	66,211
Difference	926	2,133	1,600	322	1,212
Percent dropout	1.34	3.07	2.4	0.48	1.80

The same data for the students learning in Macedonian are provided in Tables 18 and 19. The average yearly dropout rates from the second of those tables is equal to 1.11 percent, a much lower but still very worrying figure.

Table 18.
Dropout Rates in Macedonian-language Schools

Grade	1999–2000	Grade	2000–2001	Grade	2001–2002	Grade	2002–2003	Grade	2003–2004	Grade	2004–2005	Percent
1	19,593	2	19,125 (2.39%)	3	19,106 (0.10%)	4	18,988 (0.62%)	5	19,190 (–1.06%)	6	18,752 (2.28%)	4.48
2	20,521	3	20,013 (2.48%)	4	20,057 (–0.22%)	5	20,147 (–0.45%)	6	19,655 (2.44%)	7	19,395 (1.32%)	5.81
3	20,647	4	20,211 (2.11%)	5	20,560 (–1.73%)	6	20,017 (2.64%)	7	19,874 (0.71%)	8	19,534 (1.71%)	5.70

Table 19.
Average Dropout Rate (Separate School Years, Primary Education)

	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005
Students 1–7 (previous year)	148,579	142,616	138,674	133,736	129,338
Students 2–8 (next year)	145,132	141,869	136,928	132,579	128,608
Difference	3,447	747	1,746	1,157	730
Percent dropout	2.32	0.52	1.26	0.87	0.56

Unfortunately, we have much less data for the secondary schools (and no distinction on instruction language).

Table 20.
Student Numbers in Secondary Schools

Grade	Number of Students	
	2002–2003	2003–2004
1	26,697	26,293
2	24,532	25,240
3	23,728	23,446
4	19,897	19,994
Total	94,854	94,973

The transfer rate from primary to secondary education is 86 percent. The total number of students increased by one percent last year. The dropout rate in secondary education is about five percent, much higher than in primary education. This shows that Macedonian secondary schools have a lower internal efficiency than primary schools.

Equity Issues in Macedonian Education

We concentrate first on primary education. There are two dimensions of equity that we consider: the ethnic dimension and the urban/rural dimension. For the ethnic dimension, we take into account two dominant ethnic communities in the Republic of Macedonia: Macedonians and Albanians. We divide the 84 existing municipalities into five classes: those where over 95 percent of students who learn in Macedonian, those where between 70 and 95 percent of students learn in Macedonian, analogously for Albanian-language instruction, and the mixed municipalities without a dominant ethnic community.

For the second dimension, we divide the municipalities into four categories: the capital Skopje, large cities (municipality including a city of over 50,000 inhabitants), small cities, and rural municipalities (which do not include any city). This gives us together 17 groups of municipalities (there are no municipalities satisfying all three possible combinations of categories).

We discuss groups of municipalities rather than groups of schools, because there are very large differences between individual schools due to historical reasons, and also because we are already considering the equity problems from the point of view of decentralization, that is we look at equity between municipalities.

Table 21 provides the basic characteristics of school systems in the municipalities divided along those two dimensions.

The most interesting elements of this table are the school sizes and class sizes. We note that both of them decrease along the Skopje/urban/rural dimension. The behavior along the ethnic dimension is more complicated. We note that rural, predominantly-Albanian municipalities have school networks similar to those in urban, predominantly-Macedonian ones (except for Skopje). On the other hand, rural, predominantly-Macedonian communities do have very small schools with very small classes. This implies, among others, that it is not possible to use the rural schools as a factor in the allocation of education block grants. Indeed, using rural status as a criterion would provide an unnecessarily high allocation to those Albanian schools, which have, in reality, urban class sizes.

Table 21.
Basic Data on Primary Schools by Type of Municipality

Type of Municipality	Data	Macedonian		Mixed	Albanian		Macedonia
		>95 Percent	70–95 Percent		70–95 Percent	>95 Percent	
Skopje	Municipalities	2	3	3	1	1	10
	Students	11,060	18,382	19,922	536	4,897	54,797
	School size	553	511	866	268	288	559
	Class size	27.3	26.0	26.9	23.3	23.2	26.24
Large Cities	Municipalities	2	2	1	1		6
	Students	17,078	11,746	13,122	12,333		54,279
	School size	213	286	345	561		300
	Class size	23.2	23.7	24.9	27.0		24.52
Small Cities	Municipalities	18	6	3			27
	Students	32,786	16,813	22,924			72,523
	School size	166	172	314			197
	Class size	21.9	22.4	23.6			22.54
Rural	Municipalities	16	9	7	3	6	41
	Students	8,452	7,438	9,101	8,457	17,096	50,544
	School size	85	80	92	313	219	128
	Class size	18.3	18.8	19.0	23.4	23.6	20.89
Macedonia	Municipalities	38.00	20.00	14.00	5.00	7.00	84
	Students	69,376	54,379	65,069	21,326	21,993	232,143
	School size	175	203	279	418	232	223
	Class size	22.39	23.17	23.92	25.39	23.55	23.35

Table 22.
Class Sizes and Expenditures per Student by Type of Municipality, 2003

Type of Municipality	Data	Macedonian		Mixed	Albanian		Macedonia
		>95 Percent	70–95 Percent		70–95 Percent	>95 Percent	
Skopje	Municipalities	2	3	3	1	1	10
	Class size	27.3	26.0	26.9	23.3	23.2	26.2
	Cost/student	18,806	19,005	17,372	22,098	20,415	18,527
Large Cities	Municipalities	2	2	1	1		6
	Class size	23.2	23.7	24.9	27.0		24.52
	Cost/student	20,752	21,514	18,364	16,117		19,286
Small Cities	Municipalities	18	6	3			27
	Class size	21.9	22.4	23.6			22.54
	Cost/student	23,067	21,545	18,501			21,271
Rural	Municipalities	16	9	7	3	6	41
	Class size	18.3	18.8	19.0	23.4	23.6	20.89
	Cost/student	27,573	27,516	26,564	17,977	18,317	22,647
Macedonia	Municipalities	38	20	14	5	7	84
	Class size	22.39	23.17	23.92	25.39	23.55	23.35
	Cost/student	22,366	21,496	19,255	17,005	18,784	20,459

The average per-student expenditure for primary schools in Macedonia in 2003 was MKD 20,459. However, the range at the municipality level is from 16,117 in large cities like the predominantly-Albanian municipality of Tetovo, to 27,573 in rural, predominantly-Macedonian municipalities. This variation is matched by the class sizes in those municipalities: 27 students per class in Tetovo, and 18.3 students in the rural Macedonian municipalities. The per-student expenditures also increase along the Skopje/urban/rural dimension. We have already noted that the rural Albanian communities have school networks with urban characteristics. Accordingly, per-student spending there is smaller than in rural Macedonian ones.

Table 23 presents disparities in heated space per student, cost of heating per student, and full maintenance[14] costs per student.

Table 23.
Utilities and Maintenance[15] Costs per Student, 2003

Type of Municipality	Data	Macedonian		Mixed	Albanian		Macedonia
		>95 Percent	70–95 Percent		70–95 Percent	>95 Percent	
Skopje	Municipalities	2	3	3	1	1	10
	Heated space for students	5.54	5.42	4.41	2.65	2.77	4.81
	Heating cost/ student	1,362	1,974	1,588	1,000	760	1,592
	Maintenance/ student	5,057	3,980	3,199	2,388	1,042	3,635
Large Cities	Municipalities	2	2	1	1		6
	Heated space for students	4.13	4.58	3.37	2.04		3.57
	Heating cost/ student	1,086	1,321	878	694		997
	Maintenance/ student	2,210	3,863	1,210	857		2,018
Small Cities	Municipalities	18	6	3			27
	Heated space for students	5.39	3.22	2.94			4.11
	Heating cost/ student	1,311	2,245	804			1,136
	Maintenance/ student	2,504	1,309	1,035			1,763
Rural	Municipalities	16	9	7	3	6	41
	Heated space for students	4.28	4.40	4.00	2.39	2.03	3.17
	Heating cost per student	1,114	1,211	964	721	568	851
	Maintenance per student	2,076	1,705	1,424	753	612	1,188

Table 23. (continued)
Utilities and Maintenance[15] Costs per Student, 2003

Type of Municipality	Data	Macedonian		Mixed	Albanian		Macedonia
		>95 Percent	70–95 Percent		70–95 Percent	>95 Percent	
Macedonia	Municipalities	38	20	14	5	7	84
	Heated space for students	4.97	4.42	3.63	2.19	2.20	3.95
	Heating cost per student	1,240	1,503	1,081	712	611	1,149
	Maintenance per student	2,786	2,818	1,787	854	708	2,139

As the years since independence were marked by economic stagnation and rapid demographic shifts, the country could not afford much-needed investment in education. Thus, the school infrastructure could not keep up with the rapidly changing demography of the student population. Thus, we see that the space per student in Macedonian municipalities is significantly higher than in Albanian communities (more than double). This means that many more Albanian students attend the second shift.

The financial norms allocate the funds for heating based on the heated space, as well as the number of shifts (see section on financing). Therefore, the heating costs per student are also very different in different municipalities. Also, the maintenance costs per student reveal great disparities, much higher than the disparities in total per-student spending (see Table 23).

DECENTRALIZATION AFTER THE OHRID AGREEMENT

The Ohrid Agreement, signed in 2001, calls for wide-ranging decentralization of public governance in the Republic of Macedonia. The implementation of this agenda was begun with the adoption of the Law on Local Governments (LLG) in 2002. Significant responsibilities for many sectors were allocated to local governments, including education, but the government was slow in adopting other laws governing decentralization, in part because some of them posed real challenges. Thus, following some delay, the government of Macedonia began enacting other new laws, as well as amendments to existing laws, setting out in greater detail the decentralization plan. Here, we need to mention the Law on Local Government Finance (LLGF), passed in October 2004,

the amendments to the Law on Primary Education (LPE) and the Law on Secondary Education (LSE), passed in September 2004. The final law important for education was the Law on the Territorial Division of Macedonia, passed in November 2004. That law redefined the municipal boundaries and reduced their number from 124 to 85. Those laws form the basic legal framework of education decentralization in Macedonia.

Here, we discuss the implications of LLGF and of its specific provisions defining the phases of fiscal decentralization for the education sector. We also review how education adapted to this overall decentralization framework. Internal institutional preparations for education decentralization undertaken by the ministry are the subject of this section.

Character and Phases of Fiscal Decentralization

The Law on Local Governments clearly prescribes to municipalities an important role in the education sector. Article 22 lists the activities for the performance of which the municipalities will be responsible. Item 8 of this list defines activities for education: "establishing, financing and administering of primary and secondary schools, in cooperation with the central government, in accordance with the law; organizing of transportation of students, and their accommodation in dormitories." As Levitas (2002) points out, this is broad language and it is the task of MoES to define in practical, legal terms the meaning of those responsibilities and the manner in which they will be transferred to municipalities.

The Law of Local Government Finance adopted in 2004 defines a clear framework for the finances of local governments in Macedonia. In Articles 4 and 8 it lists the revenues of local governments as:

1) Own revenues, including:
    a) Local taxes (property, on the transfer of property, on inheritance, etc.),
    b) Local fees (for placing signs and announcements, for using roads, tourist fees, for public lighting, for environmental protection, etc.),
    c) Local charges (for urbanization of land, for utilization of assets, etc.).
2) Grants from the budget of the Republic of Macedonia and from the Funds:[16]
    a) Income from the personal income tax,
    b) Income from value added tax (VAT),
    c) Block grants (for financing basic municipal competencies listed in Article 22 of LLGF, that is, education, must be based on a formula using need indicators),
    d) Categorical grants (for financing of specific activities),

e) Capital grants (for financing investments),

f) Grants for delegated competencies (for financing a function delegated by a central administration to a municipality).

Moreover, the LLGF calls for establishing of an Ordinance on the Methodology of Allocation of Block Grants to municipalities, with formulas for the allocation of block grants. Thus, it is clear that education responsibilities of municipalities were to be financed through a block grant, calculated for each local government using a formula based on indicators of need, reflected by the number of students of schools of various type and level. We discuss below the types of grants used and the contents of those ordinances.

LLGF in Articles 44 and 45 also defines the two separate phases of fiscal decentralization. During Phase I, transferred responsibilities were to be financed through categorical grants, with the exclusion of salaries. The starting date of the first phase was planned for January 1, 2005, but had to be postponed due to controversies over the new territorial division and to the postponement of the new local elections (initially planned for November, then scheduled for March the following year). The start date was eventually July 1, 2005. The full budgetary responsibility, including the salaries, was to be passed to the municipalities in the second phase, at least three years later. The law also included some conditions to be met before the start of the first phase (for all municipalities together) and of the second phase (for each municipality separately). The division of the process into two phases and the conditions of beginning each phase were suggested by the International Monetary Fund, and were motivated by the fear that poor fiscal management by the municipalities might contribute to an excessive budget deficit.

Thus, during Phase I, only the responsibilities for maintenance, repairs, and material expenditures were transferred to the municipalities. Fragmentation of the school budgets became unavoidable, with the major part (about 90 percent on average MoES) provided by MoES to every school in the same manner as in the past, while the remaining parts were provided by municipalities from the categorical grants, supplemented in some cases by own revenues of the municipalities.

Management and Financing of Decentralized Education

The amendments to the laws on primary and on secondary education provide a detailed specification of the general transfer of responsibility on "establishing, financing, and administering of primary and secondary schools" to municipalities, as dictated by the LLGF. The laws redesign the role of the school board, by allocating it very significant powers, including the authority to select and dismiss the school director, to set the

school budget, and to adopt the school statute. The selected candidate is now appointed by the mayor, in accordance with the LLGF. Parents are assured one-third of the places on the school board, and the local governments about the same (the remaining places will be filled by the school employees). The school director, depending on the school board with which he or she will workclosely, thus becomes a much stronger function, and what is even more important, a much more stable function. Hopefully, the very frequent replacement of the school director for transient political reasons will be stopped.

The new laws also foresee the introduction of a system of licensing of school directors. This is a welcome step towards better professional preparation of managing cadres in Macedonian schools, though the new system is not yet clearly defined. What is worrying is that the laws mandate the almost immediate introduction of the new system (within less than two years), while the experience of more developed countries (such as national Headship Qualifications in the United Kingdom) shows that a transition period of five years or more is very useful.

The key responsibility of the *founding organ*—in other words, the owner of the school—is assigned to municipalities (with the exception of special and artistic schools). The *founding rights* also include the ownership of school property and the right to open and close schools, although the latter actions require prior approval of MoES. The transfer of property ownership to the new school founder is especially complicated because the legal status of many of those properties was unclear in 2005 and is still in limbo.

Nevertheless, the new laws take into account the phasing of fiscal decentralization, as defined by the Law on Local Government Finance (LLGF). The main provisions regarding the founders and the school boards came into force with the beginning of Phase I. The laws formulate the basic principles of the financing of education (use of the per-student formula), but do not provide details as to how this may be translated into a numerical formula.

The Ministry of Education, in its Education Decentralization Strategy (see MoES 2004), also planned to transfer to municipalities in the first phase, together with the responsibility for maintenance, the responsibility for the salaries of the technical staff (cleaners, guards, gardeners, drivers, operators of the heating systems, and the like). Such a move partially breaks with the fragmentation of education finance, by linking the maintenance functions with the salaries of people responsible for carrying out those functions. Moreover, as seen from the earlier analysis, it is the variation of technical staff between the schools and between the municipalities that is one of the most difficult equity issues in Macedonian education. MoES entered into negotiations with the Ministry of Finance over this provision of LLGF, which is in contradiction with the MoES decentralization strategy, but without success.

The amended laws on education also allocate to municipalities the responsibility for organizing the transportation of students to schools, in line with Article 22 of LLGF.

However, the municipalities may delegate this responsibility to schools, and thus decide to continue with the present system of schools organizing the transportation tenders themselves.

As described in the previous section, decentralization was planned to begin on July 1, 2005, in the middle of the fiscal year. This made planning the new financing mechanisms difficult, and in particular called for a half-year transition until the end of 2005.

For **the transition half-year period** until the end of fiscal year 2005, it was assumed that it would not be preferable to use a per-student formula to allocate the education funds to municipalities, because the maintenance plans of schools had already been approved and were in the middle of being executed. Therefore, the ministry thought of using those plans as a basis for the allocation of categorical grants, on the assumption that this would not lead to a contradiction with the newly amended education laws. The main difficulty with this plan was that education institutions regularly run end-of-year deficits, paid off with the new year's allocation. This, in turn, has led to new debts accumulating during the current fiscal year. When the decentralization process started, MoES could not clean the debt situation and transfer to municipalities only the responsibility for current expenditures. Two difficult problems appeared: how to assess the level of debt to be paid off, and how to find the funds to pay off this debt.

For **the first phase** of education decentralization, the ministry prepared a per-student allocation formula to municipalities. A number of factors were considered for use in the formula and then rejected, such as rural school students (because some rural communities are very large and have city-like structure of school networks). The main objective indicator, which seemed compatible with the historical allocation patterns, was population density. The setting of budgets of individual schools became the responsibility of the municipalities, though closely monitored by the ministry.

For the **second phase**, the allocation formula will almost certainly have to change, because the present distribution patterns of maintenance expenditures and of full school expenditures are quite different. However, the Ministry will be able to use the experience gained during the first phase and to adjust its formula approach accordingly.

Finally, we return to the issues of external efficiency of the education system in Macedonia, as discussed above in the context of centralized system. There are two ways in which decentralization can contribute to introducing efficiency mechanisms:

1) Local governments, closely monitoring the expenditures of their schools, will be able to assess the impact on investment in better windows and roofs on heating expenses, and will therefore be able to lower the current costs through good investment and maintenance of schools.

2) The allocation formula, based primarily on student numbers, will put pressure on the local governments to adjust the school network to the demographic shifts.

Preparations of the Ministry

MoES carefully prepared the first phase of decentralization and set up an analytical unit to gather, for the first time, all enrollment and financial data about all Macedonian schools, primary and secondary. The unit began producing reviews and analysis, as well as supporting the activities of other sectors of MoES.

Subsequently, MoES prepared for the technical and legal work necessary to transfer the ownership of school facilities to municipalities. Here, a compromise had to be found between the desire to transfer the ownership as soon as possible and the necessity to clarify the ownership status of the properties.

Following the adoption of the laws, MoES prepared a series of bylaws and ordinances to define the practical steps and procedures necessary to manage the decentralized education sector. The main open and difficult issue here was how to define the responsibilities of municipalities with respect to their schools in the sphere of maintenance. Before 2005, many of the norms and prescriptions concerning school equipment were not met in the schools because the requirements were unrealistically high. The challenge was how to adjust the requirements and make them easier to be implemented, but not retreat from higher education standards. Finally, it was not very clear what legal mechanisms were needed to enforce the standards defined in the ordinances passed by the ministry.

A new per-student allocation formula to define the block grants to municipalities was prepared, simulated, and discussed within the ministry. The analytical unit prepared a computer tool to perform those simulations and to analyze the impact of various allocation scenarios. The simulations were presented and discussed with other ministries.

Open Problems

Despite the fact that Macedonia adopted a carefully prepared set of legal laws, and that the Ministry of Education and Science made some significant internal preparations for decentralization, there remained significant open problems that MoES could not address before starting the decentralization process. Some of them were:

1) No significant work on raising the education management capacities of the municipalities was implemented. The local elections brought changes in the composition of local councils, but the new local leaders did not have sufficient experience and understanding of the complex problems in the education sphere.
2) An analogous problem appeared for the new members of the school boards. The long and rich history of strong school boards in Macedonia suffered a

15-year break, and it was not at all clear that the people with the experience and the skills would be selected to the school boards. Moreover, those may have been somewhat different skills, given the very different political and economic context of managing schools in what was Socialist Yugoslavia and the present. The ministry prepared a written guidebook for their members, but it proved to be insufficient for increasing the capacity of the boards.

3) The rationalization of rural schools was a very difficult problem for many reasons. The sharing of responsibility for schools between municipalities (maintenance) and the ministry (salaries) during the first phase of decentralization made the resolution of those conflicts even more difficult.

4) The municipalities will also become the founders of the secondary schools, and this will pose a number of even more difficult planning and coordination issues. The vocational schools, especially, will need restructuring in accordance with the needs of the labor market, which will in all cases extend far beyond the boundaries of the municipalities. Also here MoES and the municipalities will need to learn to cooperate, rather than quarrel, and the ministry should already be planning proper mechanisms and procedures for this necessary cooperation.

5) There were no mechanisms in place to protect the schools serving ethnic communities who are subject to discrimination by the local majority, both financial and managerial.

THE FIRST PHASE (2005–2007)

In the present section we summarize the experience of the first phase of education decentralization in Macedonia. We also include some preliminary comments on the pilot phase for the second phase of decentralization, which began in mid-2007 in selected municipalities (about 10 were considered ready to be included in this pilot). Here, we describe what has happened and then describe the use of categorical and block grants in education, and a more technical description of the allocation formulas for categorical grants for school maintenance in 2006 and 2007. Finally, we provide some assessment of the situation and the lessons drawn. This part is heavily based on reports by Jan Herczynski, *Challenges of the Second Phase of Education Decentralization in Macedonia* and *Towards the Formula for Block Grants in Macedonia*, written in 2007 for the USAID-funded project Making Decentralization Work (MDW).

The First Phase

The first phase of education decentralization in the Republic of Macedonia started on July 1, 2005. Long preparations for decentralization undertaken by the Macedonian Ministry of Education and Science (MoES) included the adoption of a strategy for education decentralization in June 2004, and significant amendments to the Law on Primary Education and the Law on Secondary Education,[17] passed by Macedonian Parliament in September 2004. MoES has transferred complete responsibility for school maintenance and student transportation to local governments, while retaining responsibility for teacher and non-teacher salaries.[18]

Simultaneously, the Ministry of Finance prepared the basic framework of fiscal decentralization in the Law of Local Government Finance (LLGF), adopted by Macedonian Parliament in August 2004. This framework includes:

1) A schedule for fiscal decentralization, including its division into two phases (phase I—maintenance, and phase II—salaries).
2) New types of intergovernmental transfers, namely categorical grants for phase I and block grants for phase II, to finance decentralized functions to local governments.
3) Responsibility of the line ministries to monitor the effective use of categorical and block grants.

Initially, the starting date for decentralization was planned for January 1, 2005, but there were delays due to political processes, especially the disputes surrounding the consolidation of Macedonian municipalities in 2004 (including a referendum on the issue in October 2004). Eventually, the government of Macedonia decided that, in order to limit the delays, the first phase would be postponed not by one year, but only by half a year. That is why the first phase began in the middle of the fiscal year of 2005. This was not an easy beginning. Some difficulties that appeared may be formulated as follows:

1) Central government did not pay old school debts,[19] so the courts were still demanding the schools and municipalities pay their creditors.
2) There was no effective financial monitoring tools and corrective procedures at the disposal of Ministry of Education and Science. Consequently, the ministry was unable to respond to various cases of mismanagement.
3) The schools were transferred to municipalities in varied technical conditions and with very different levels of equipment. Many municipalities are unable to improve those conditions.

4) The transfer to municipalities of ownership of school properties was delayed and remains incomplete. Unclear conditions of many of the properties are a barrier to rapid progress.
5) MoES still has not defined the new normative on school conditions and equipment, so the exact responsibilities of municipalities are not clearly defined.[20]
6) The allocation formula for categorical grants has not been subject of public debate and there are still many misconceptions and uncertainties regarding it.
7) There are three categorical grants: for maintenance of primary and secondary schools, and for student transport. This increases the complexity of the allocation formulas and reduces the freedom of local governments to manage their school networks.

Moreover, some problems were a direct result of the start of decentralization in the middle of the fiscal year. The definition of the pool for education categorical grants in 2005 was difficult because of seasonal variation of education expenditures; consequently many municipalities considered that they have received insufficient funding. Also, the detailed registration of school debts incurred in 2005 prior to July was made more difficult.[21] Those problems, of course, were relevant only in 2005.

Categorical and Block Grants

The Law on Local Government Finance of 2004 foresees two types of grants that can be used to finance activities decentralized to local governments: categorical and block grants. The categorical grants are used to finance specific activities within a sector, while the block grants are used to finance whole sectors. The definition of those grants in the LLGF (Articles 25 and 26) makes no reference to what type of activities or expenditures the grants may cover. In other words, the government of Macedonia is free to define such grants as what best suits its strategies and policies in any sector, including education.

The difference between the categorical grants and block grants appears in connection with decentralization in Article 45 of LLGF. Namely, the law clearly states that during the first phase decentralized functions will be financed through categorical grants excluding salaries, and full financing of the sectors including the salaries will start only in the second phase, with block grants. This has led a number of specialists in MoES to believe that categorical grants are for maintenance only, and only the block grants can be used in the second phase. However, both those conclusions are incorrect, as the definitions of LLGF recalled above clearly show.

Indeed, in the future MoES will be using both types of grants to finance education, though in different ways and for different purposes. Block grants, as grants directed to the whole sector, will be the main instrument of financing the operational costs of providing education, that is, of the operating and financing of schools. Those grants have to be allocated to municipalities through an allocation formula based on the numbers of students of specific categories, and should be rather stable, to protect education from excessive changes. Here, stability means that MoES should not change radically from year to year, either the allocation formula or the amounts allocated to each municipality. Nevertheless, there will certainly be changes in the allocation formulas, because the education priorities of the ministry may change in time. Thus, for example MoES may decide at any time that more support is needed for small rural schools, and may increase the appropriate factors used in the formula.[22]

Categorical grants will be used to finance specific programs or projects within the education sector, to achieve specific policy goals of MoES. It is possible to use the categorical grants for many purposes, for example:

1) Financing specific types of extracurricular activities, such as sports;
2) Supporting specific programs, such as teacher in-service training;
3) Improving access to education by vulnerable or minority groups of students;
4) Promoting academic excellence in specific subjects or areas.

Block grants are not suitable financing instruments for those types of education policies, because they can be used by municipalities in any way they want, as long as the expenditures are within the education sector. Categorical grants in education, unlike the block grants, may change significantly from year to year in the amounts involved and in the allocation criteria. Indeed, some may be used for a few years and then be replaced by other categorical grants, addressed to different groups of students. On the other hand, the categorical grants are likely to remain rather small in terms of allocated funds compared to block grants.

We note that the implementation of some policy initiatives of the ministry may require using both types of grants. For example, the integration of handicapped students in mainstream education may be facilitated in two parallel ways:

1) Specific projects, such as the training of teachers or the provision of specialized equipment to the schools, may be financed through categorical grants;
2) An overall introduction of integrated teaching may be encouraged by introducing a small weight in the allocation formula based on the number of handicapped children receiving education in mainstream schools.

We may say that categorical grants would finance the costs of introducing integrated teaching, while block grants would finance the increased recurrent costs of the schools where integrated education is conducted. This example illustrates the flexibility and care which MoES needs to show in using the block and categorical grants.

Since the local governments may use the funds from the block grant in any way within the sector, there can obviously be only one block grant per sector. In practice, until education legislation is seriously amended in Macedonia, this means that there will be one block grant for primary education and one block grant for secondary education.[23] On the other hand, the number of categorical grants in the sector may vary depending on the needs of the sector and on the policies of the ministry. Indeed, in 2005 and 2006, there were two categorical grants in primary education—for the maintenance of primary schools and for transportation of primary school students. This does not have a legislative basis, but is due to a traditional way of budgeting. The Ministry of Education and Science wanted, from the beginning of decentralization, to put the two grants together and create one categorical grant for primary education, but this was resisted by the Ministry of Finance. The separate categorical grant for student transportation will disappear only in fiscal year 2008. However, the ministry may be required to introduce a separate categorical grant for student standard to finance dormitories.

Table 24.
Number and Type of Grants in Education[24]

Period	Grants
Phase I of decentralization (2005–2006)	1) Categorical: maintenance of primary schools 2) Categorical: transport for primary education 3) Categorical: maintenance of secondary schools
Phase I of decentralization (2007)	1) Categorical: maintenance of primary schools 2) Categorical: maintenance of secondary schools
Pilot stage of Phase II of decentralization (September 1 to December 31, 2007)	For 41 municipalities that moved to second phase: 1) Block: primary education 2) Block: secondary education For remaining municipalities: 3) Categorical: maintenance of primary schools 4) Categorical: maintenance of secondary schools
First years of Phase II of decentralization (FY 2008)	For the municipalities that enter Phase II: 1) Block: primary education 2) Block: secondary education For the municipalities that stay in Phase I: 3) Categorical: maintenance of primary schools 4) Categorical: dormitories for primary education

Period	Grants
Complete implementation of Phase II (probably from FY 2009)	1) Block: primary education 2) Block: secondary education In addition possibly: 3) Categorical: grants for specific programs defined by MoES (such as support for vulnerable students, subsidies for student food, improvement in IT equipment)

In practice, of course, as the categorical grant is a new policy instrument, it should be initially used very carefully, with strong emphasis on monitoring and reporting by the municipalities.

Allocation Formulas for Categorical Grants for Maintenance

Two goals guided the design of the allocation formula for the categorical grants during Phase I of education decentralization: that the formulas for primary and secondary school maintenance should be similar,[25] and that the overall structure of the formula may be also used for the block grants, though with possibly different factors and different numerical values of coefficients. This means that, if that structure is maintained,[26] the beginning of Phase II will not bring major changes or surprises in the formula itself. In the present section, we will briefly review this present structure, so that discussion of possible changes in subsequent sections will be easier to understand.

There are three main elements of the formula:

1) The lump sum, allocated to each municipality irrespective of the number of students (for primary schools only).
2) For each municipality the number of weighted students is calculated. The following groups of students are included in this calculation, apart from the physical number of students:
    a) For primary schools, students attending school located in municipalities with low population density.
    b) For secondary schools, also students attending gymnasiums.
3) Lower and upper buffers used to protect the municipalities from excessive changes from the previous year's allocation (in 2007, only for primary education).

The role of the lump sum is to protect the small municipalities that have very few students and still need to maintain schools for them. For cities and for large rural municipalities the lump sum becomes a negligible element, but it is significant for very small municipalities. One can also say that the lump sum covers the fixed costs of providing education. The role of the weights for students in municipalities with low population density is to provide more funds to the small schools with small classes, where maintenance costs per student are higher. The role of the weight for gymnasium students is to provide more funds to gymnasiums than to vocational schools, because vocational schools have additional revenues from the sale of products and services and hence need relatively less funds for maintenance.[27] The role of the lower buffer is to ensure that municipalities with schools spending more than the average on maintenance do not suffer a sudden decrease of funding levels.

The application of the formula thus begins with the setting of the lump sum. To allocate the remaining funds to municipalities, the weighted number of students is calculated for each municipality, based on the groups of students identified above. The funds are then allocated proportionally to the weighted number of students, with the allocation standard being proportionality constant. This means that the allocation to each municipality is equal to the lump sum plus the number of weighted students in the schools of that municipality multiplied by the allocation standard. Finally, the upper and lower buffers limit the impact of the formula and produce the final allocation that is closer to the historical allocation (the previous year's allocation).

The specific values of the coefficients used in the present allocation formulas for categorical grants are provided in the tables below (the population density is measured in inhabitants per square kilometer).

Table 25.
Allocation Formula for Primary Education

Coefficient	2006	2007
Total pool of funds (MKD)	440,000,000	613,000,000
Lump sum (MKD)	400,000	500,000
Weight for density below 25	0.6	0.6
Weight for density 25 to 40	0.4	0.4
Weight for density 40 to 70	0.2	0.2
Allocation standard (MKD)	1,558	2,244
Lower buffer (%)	85	130
Upper buffer (%)	112	149.86

Table 26.
Allocation Formula for Secondary Education

Coefficient	2006	2007
Total pool of funds (MKD)	170,000,000	210,000,000
Weight for density below 40	0.1	0.1
Weight for gymnasium students	1.0	1.0
Allocation standard (MKD)	1,294	1,611
Lower buffer (%)	80	
Upper buffer (%)	175	

The most important and politically sensitive issue is the lower buffer, because it defines the level of adjustment which the ministry considers acceptable. The upper buffer, which limits how much the allocation can increase compared to the previous year, is then adjusted to the lower buffer to ensure that all the funds are allocated.[28]

The formulas adopted for the categorical grants for 2008 have not been significantly altered. For primary education, the three bands of population density and respective coefficients have been changed to the following:

- Density below 20 persons per square kilometer: 1.4
- Density between 20 and 35: 0.8
- Density between 35 and 70: 0.6

This represents an increase of coefficients, especially for sparsely populated municipalities, and more pronounced support to small rural schools. For categorical grants for secondary education, the weight for sparsely populated municipalities was abandoned and the weight for gymnasium students decreased to 0.5.

For the new block grants in 2008, the ministry conducted a serious empirical review of the formulas and introduced significant changes by adding new factors, though the structure of the formula was preserved.[29] For primary education, the following coefficients based on population density were used:

- Density below 20 persons per square kilometer: 0.6
- Density between 20 and 35: 0.4
- Density between 35 and 70: 0.2

At the same time, a new weight for special needs students was added (value 1), as well as a weight for subject teaching[30] (value 0.2). The latter weight recognizes the difference in teaching for initial and later grades of primary school.

For block grants for secondary education, the main new element is using the lump sum (which was not used for categorical grants for secondary education). The weight for gymnasium students was reduced to a very low value of 0.1.

We thus see that the ministry was able to adapt the factors and the coefficients used in the formula to serve the block grants, which allocate to municipalities significantly more funds than the categorical grants for school maintenance.

CONCLUSIONS

Despite the delayed start and initial problem, the first phase of education decentralization in Macedonia must be considered a major success. By transferring to municipalities a limited responsibility in the education sector, restricted to school maintenance and student transportation, MoES ensured a relatively smooth decentralization process. Education decentralization in Macedonia became a fact, and municipalities have in reality taken over their new responsibilities, often demanding more powers in the sector. An example is the demand by ZELS (Association of Local Governments of Macedonia) that mayors be given more influence over the appointment of school directors, for the transfer of responsibilities was associated with the transfer of funds in the form of categorical education grants. There were, of course, disputes regarding the level of the allocation of the funds, but the municipalities took an increasingly active attitude to the budgeting of maintenance in their schools (as we discuss below). In its serious approach to education decentralization, Macedonia is one of the most advanced countries in South Eastern Europe.[31]

Municipalities are now asserting their new powers in the education sector in a number of ways. The changes of municipalities as new owners of schools have many faces, of course. Some are changing their administrative structure and establishing special units responsible for education sector within their local administrations.[32] Some are deliberating and adopting local education strategies, including long-term visions of their school systems.[33]

The most important change regards the municipal role in the budgeting process. Although restricted to school maintenance, some municipalities have begun the serious work of assessing the relative conditions of their schools, as well as the relative needs of recurrent funding and investments.[34] The new procedures are based on a more transparent process, in which information from different schools and for successive budget years is evaluated to assess the budget requests from the schools. Similarly, municipalities have begun to review and streamline the organization and financing of student transportation, which in many cases became quite irrational under the previous decentralized system. Here, the main effort was to review the actual transportation routes and ensure that they were as efficient as possible. Finally, some municipalities have begun a serious

effort in the optimization of school networks, including the consolidation of schools and the redrafting of school catchment areas.[35] It is precisely this process of establishing new rules and procedures that will, hopefully, lead to a more efficient management and use of resources, and ultimately to provision of better education.[36]

At the same time, the Ministry of Education is also adapting to the new management and financing of education. A restructuring of the ministry is taking place, including the setting up of a specific unit to analyze and monitor the performance of the decentralized education system. Regional representatives of the ministry and their staff have been incorporated to larger municipalities to reflect changes in the responsibilities. New laws have redefined the roles of the State Education Inspectorate and the Bureau for Education Development.

However, the efforts to complete the first phase of education decentralization are incomplete. We list the most urgent tasks ahead, which certainly should be resolved prior to the beginning of the second phase:

1) *Clearing up of old school debts*. This is an old problem, which has received significant attention recently, and progress has been achieved. Indeed, ZELS estimates that by January 2007 about 90 percent of old debts were paid off. MoES should insist on the rapid finalization of this problem. It would be good to compile and agree with the municipalities on a list of all remaining outstanding debts.

2) *Transfer of ownership of school properties*. Currently, a specific, small unit of the Ministry of Finance is charged with clearing the situation of those properties and of successively passing them to the municipalities. This system is dysfunctional; it delays the clearing of the cadastre of school properties and their transfer to the municipalities. MoES should propose a more realistic and faster procedure to ensure that the municipalities receive legal ownership of school facilities.

3) *Introduction of proper monitoring tools and procedures*. The present situation, when the ministry has only limited and incomplete monitoring capacities is unsafe for the education system, because it does not allow urgent intervention in cases when the law is broken or local decisions are inconsistent with the legal regulations. The ministry finds it difficult to monitor even the disbursement of categorical grants and is quite unable to monitor, during the fiscal year, the categorical grants that are used only for education. Again, cooperation with the Ministry of Finance should improve (including better access to treasury system data). Of course, the scope for misuse of funds and the need for good monitoring will increase in the second phase.

4) *Adoption of a modified normative on conditions in schools and on teaching aids and equipment*.[37] A draft normative prepared by MoES needs to be discussed with all stakeholders and adopted. The normative should define the minimum standards of school space, furniture, and teaching equipment to be maintained in

schools. Without such a normative the responsibilities of municipalities remain ill defined, and the ministry will not be able to fulfill its role of ensuring that all students in Macedonian schools enjoy basic minimal conditions.

It is worthwhile to formulate the lessons learned during the first phase of education decentralization. Firstly, it is important to note that Ministry of Education and Science had to define its decentralization strategy within the overall decentralization framework defined by the Ministry of Finance. MoES did not have to invent its own procedures, it simply had to intelligently use the framework developed in the LLGF. As the second phase becomes a reality, the Ministry of Finance should provide similar clarity on how the management of employees and salaries will be transferred to municipalities.

Secondly, the relative success of the first phase was in part due to a long preparation process led by the ministry. This included the adoption of a sectoral strategy and preparation of significant amendments to education laws. Within the ministry, in a series of workshops and seminars, a consensus was built which allowed common understanding and the implementation of reforms. Creation of a consensus within the ministry and with other key education institutions, such as the Bureau for the Development of Education or State Education Inspectorate is crucial for the success of the second phase.

Finally, the start of the first phase was preceded by a public information campaign, addressed to the general public and to specific institutions. Local governments received a lot of training and support, part of it financed by the international community. The second phase should also be introduced with information campaigns. However, due to different nature of the second phase, the main target of the campaign should be municipalities, school boards, and teachers.

SOURCES CITED

Bureau for the Development of Education (2004) *Draft National Strategy for Education Development in the Republic of Macedonia*. Skopje: Bureau for the Development of Education.

Halasz, G. (2000) *An Education Policy Strategy for Macedonia*. Skopje: World Bank Office.

Herczyński, J. (2004) *Key Problems of Per-student Financing of Education in Phase I of Education Decentralization in Macedonia*. Report. Skopje: LGRP.

——— (2007) *Challenges of the Second Phase of Education Decentralization in Macedonia*. Report. Skopje: Making Decentralization Work, USAID.

——— (2007) *Towards the Formula for Block Grants in Macedonia*. Report. Skopje: Making Decentralization Work, USAID.

Hoxha, E., ed. (2007) *Municipal Management of Schools: Guidebook*. Skopje: MMMS.

International Crisis Group (2001a) *Macedonia's Name: Why the Dispute Matters and How to Resolve It?* Skopje/Brussels:ICG Balkan Report 122.

International Crisis Group (2001b) *Macedonia: War on Hold*. Skopje/Brussels: ICG Balkan Briefing.

Levitas, T. (2002) *Preparing for Education Decentralization in Macedonia: Issues, Directions, Actions*. Report. Skopje: LGRP.

Levitas, T. and J. Herczyński (2003) *The Principles of Education Finance in a Decentralized Education System. Memo for the Ministry of Education and Science*, *Skopje*. Report. Skopje: LGRP.

Ministry of Education and Science (2004) *Education Decentralization Strategy: Education Finance*. Skopje: MoES.

OECD (2001) *Thematic Review of National Policies for Education: FYROM*. Vienna: OECD.

Sobranie na Republika Makedonija (1995) *Law on Primary Education.* Skopje.

Sobranie na Republika Makedonija (1995) *Law on Secondary Education.* Skopje.

Sobranie na Republika Makedonija (2002) *Law on Local Governments of January 24, 2002.* Skopje.

Sobranie na Republika Makedonija (2004) *Law Amending the Law on Primary Education.* Skopje.

Sobranie na Republika Makedonija (2004) *Law Amending the Law on Secondary Education.* Skopje.

Sobranie na Republika Makedonija (2004) *Law on Local Government Finance of September 6, 2004*. Skopje.

NOTES

[1] We express our gratitude to Mr. Muamet Demiri, formerly of MoES, to Mrs. Liljana Ristovska and to Mr. Bill Althaus of the former MDW project for support and cooperation. We are indebted to our colleague Tony Levitas, whose understanding of social and political implications proved to be an invaluable asset in our work. The views expressed in the report are of the authors' only, and do not reflect the opinions of the Ministry of Education and Science, of the project Make Decentralization Work, nor of the United Stated Agency for International Development.

[2] There are five types of primary schools: regular, music, special (two types), and primary school for adults.

[3] In secondary education there are five types of schools: gymnasium, vocational, mixed (gymnasium and vocational), music, and special.

[4] As described later in the paper; since 2002 student transportation and accommodation for secondary education were turned into a separate program, called the "student standard."

[5] Includes: voluntary yearly fee (called "participation fee") paid by students at the beginning of the school year, and income from selling of goods and services. Among those services are external examinations provided by secondary schools for adult learners.

[6] Teacher training and scholarship are provided directly from the ministry to teacher-training providers and to students, respectively. Manuals are paid for by parents.

[7] The Bureau for the Development of Education is a professional institution, subordinated to the ministry, responsible for developing curricula and teaching materials, and for providing teacher in-service training.

[8] Those norms will most likely be soon replaced by more general recommendations, as municipalities become responsible for salaries and employment.

[9] There are two titles for teachers given by school commission: exemplary and special exemplary.

[10] Explanation: M-r and VSP–university degree; VSS–post-secondary degree; SSS, VKV, KV–secondary school; PKV, NKV–primary school.

[11] USD 1 = MKD 50; EUR 1 = MKD 62 as of 2005.

[12] The criteria provide detailed definitions of what it means for the school to have 1.5 or 2.5 shifts.

[13] It is estimated that the enrollment rate in grade one of primary schools is about 95 percent and steadily increasing.

[14] This includes energy (electricity, heating), water, communal services, materials, small repairs, telephones, etc.

[15] This includes energy (electricity, heating), water, communal services, materials, small repairs, telephones, etc.

[16] They are various off-budget funds financed in part from the state budget, and in part from own revenues, responsible for specific functions such as roads.

[17] The amended laws transferred school founding rights to local governments and introduced new provisions for education finance.

[18] Education decentralization in Macedonia has, thus far, administrative and fiscal dimensions, and has not yet touched on the areas of curriculum, textbooks, or monitoring of quality.

[19] A large part of those debts were due to school directors ordering major repairs or investments in their schools without having first secured MoES funds for those projects.

[20] Draft normative was prepared by MoES in mid-2007 and will be presumably adopted in 2008 following consultations with local governments.

[21] Problematic areas included invoices for services provided to the school during the first six months of 2005, but received by the schools after July 1.

[22] In the current allocation formula, this would mean increasing the lump sum and the values of coefficients for low population density.

[23] Two separate laws on primary and secondary education provide separate legal regulations and legally require separate block grants.

[24] LLGF states that a municipality needs to meet certain conditions in order to qualify for Phase 2 of decentralization. On September 1, 2007, 41 municipalities moved to Phase 2. On January 1, 2008, nine more joined them.

[25] We do not discuss here the allocation formula for student transportation, based on the number of student-kilometers, because this was a transition formula. As discussed in the previous section, MoES wanted to join this categorical grant with the maintenance grant for primary education. This was achieved only for FY 2007, due to resistance from the Ministry of Finance. We also do not discuss the formula used for the second half of 2005, when the ministry decided that use of a per-student formula for half a year is not possible, and used a simple allocation proportional to historical expenditures on school maintenance.

[26] Of course, the ministry may change the structure of the formula as it sees fit.

[27] The lower per-student allocation of maintenance funds to vocational schools is a specific Macedonian phenomenon, related to the fact that vocational secondary schools finance some of their maintenance costs from own revenues, such as sale of services. If all elements of the school budgets are included, with teacher salaries, then the per-student allocations of vocational schools become somewhat higher than those of general education schools.

[28] Specifically, this means the following: the setting of the lower buffer defines the amount of funds which needs to be provided to municipalities. The pure formula without the buffer would allocate less to some municipalities. The funds that should be allocated according to the lower buffer are obtained from applying the upper buffer to the municipalities which had historically lower costs.

[29] We discuss formulas for block grants in 2008. For the last four months of 2007 it was decided not to use per-student formulas for the block grants, but to allocate them proportionally to historical expenditures (similarly to the second half of 2005).

[30] "Subject teaching" refers to grades five to eight, where students have different subjects. Initial instruction is called "class teaching."

[31] It is not surprising that Macedonia hosted a regional conference on education decentralization in Ohrid in May 2006. The conference was attended by high-level representatives of education ministries from almost all Balkan countries. It was clear from the presentations in Ohrid that Macedonia was most systematic and advanced among the participating countries.

[32] Among other examples, this has happened in the municipality of Strumica, see Hoxha 2007.

[33] This was the approach taken in municipality of Tearce, see Hoxha 2007.

[34] The new procedures were adopted by many municipalities, see Hoxha 2007.

[35] Resen conducted a far-reaching review both of student transportation and of networks, see Hoxha 2007.

[36] The experiences and procedures of the first phase of decentralization have been summarized in *Municipal Management of Schools: Guidebook*, edited by Ella Hoxha.

[37] A report commissioned by USAID/DP demonstrated that the conditions in secondary schools are relatively adequate, so the new normative is needed, especially for the primary schools.

Financing Education in Moldova

Veaceslav Ionita

Executive Summary

Education reform in the Republic of Moldova has been an ongoing process that has involved not only the rethinking of the role of public authorities in the education sector but also changes to the principles of education itself.

After passing a new Constitution in 1994, Moldova began the changes to make its national education system reflect modern, democratic values. Two pieces of legislation were critical to its implementation, the Law on Education No. 547 of 1995 and the Law on Local Public Finance No. 127 of 2003. This was matched with secondary legislation as well as some specific goals outlined in Moldova's Poverty Reduction Strategy Paper of 2004.

The first step of education reform de-politicized the system and expunged the curriculum of ideology, while a second step reorganized the schools and a third step was planned in concert with the decentralization of central government fiscal authority. Despite the efforts of this well-intentioned change on the part of the central government, economic and demographic declines have contributed to a falling number of schools and poorer quality education.

What had been modeled in Moldova on the Soviet educational system of general schools has diversified into a multileveled system of preschools and primary and secondary schools culminating in high schools and vocational schools based on European standards obligatory for students until the age of 16. The baccalaureate is the final degree qualification for those students wishing to continue to university; vocational students who reach the qualification of technician may also apply. In theory, Moldova now has a modern curriculum that corresponds to the developments and demands of its labor market.

Many anomalies and problems remain, for example, the insertion of "high school" level courses in rural schools to augment the lack of transport and accommodation for rural high school students to attend larger regional schools. Likewise, preschools suffered from a long period of economic shortages when local authorities were burdened with the debts and poor maintenance of these preschools formerly run by *kolkhoz*. Many preschools closed and some eventually re-opened. Today, only 60 percent of preschool students are enrolled.

Moldova's central government has planned a slow release of its authority in the financing, organization, and assessment of the education sector; however, policy and its execution remains its remit. Even if the law legislated responsibility to municipalities for preschool and primary and secondary schools, this may not be the case due to restrictions on the catchment area of the school concerned. For example, professional schools are under the jurisdiction of the districts or *raions* and some *raions* also may control boarding

schools and high school hostels. The *raion*-level board of education has the authority to close, reorganize, or open schools. The Ministry of Education, which ultimately holds responsibility for all policy and decisions regarding schools in Moldova, can also make this decision if deemed necessary. Wages and social and health benefits are paid by the *raion* departments of the Ministry of Education, but so poor is the pay and benefit package for teachers, and by default the revenue of schools, especially in rural areas, that some communities have developed an informal wage and revenue top-up scheme in order to keep their schools open. At the same time, the ministry has delegated new responsibilities to local authorities without ensuring funding sources like grants, taxes, or own revenues for their implementation. To compound the arbitrary attitude of the Ministry of Education towards decentralizing finances and management, local schools are still unable to choose and hire their own directors.

In 2003, education expenditures in Moldova made up six percent of GDP and about a quarter of the state budget. Funds for education are shared and divided according to revenues from a local percentage of corporate, personal, and road taxes; and general and allocated transfers in addition to own revenue of local governments and schools. School budgets are estimated by local authorities, submitted to the central government, then averaged through data from the Department of Statistics and Sociology, and funds are then administered as categorical grants, though this is prone to change.

In conclusion, the reforms have been piecemeal and incomplete. Decentralization started in 1999, but efforts were discontinued in 2003. In 2006, decentralization was re-initiated, and the idea to involve more local government authorities in the delivery of education was put back on the public agenda. Unfortunately, a coherent financing framework was not developed and the unclear allocation of responsibilities has contributed to the problems of a Moldovan education system beset by poor infrastructure, low efficiency, and high teaching costs. External assistance has come from international donors like the World Bank and UNICEF that have implemented a number of projects (particularly meals and maintenance), but this has not yielded an overall improvement in the performance of the education system, one of the sole services provided by local authorities. These problems are systematic and especially acute in rural schools, which typically need more revenue to function. Solving these problems requires a clear allocation of educational and financial responsibilities legislated on the national level, freeing decision-making from the Ministry of Education and giving more fiscal autonomy to local authorities.

THE GENERAL SYSTEM OF EDUCATION

Since the proclamation of its independence, Moldova has initiated political, economic, and social changes aimed at creating a market economy based on private and public property, free initiative, and competition. In 1994, the Moldovan Parliament adopted the Constitution of the Republic of Moldova, confirming the right of all citizens to education, with no limitation or discrimination, and compulsory education was declared free of charge in all state institutions. The transition from a centrally-planned economy to a market economy called for changes in the educational policies of the newly-formed independent state. The task ahead was to build a modern and democratic national educational system, based on both national and universal values.

The main policy document of the government for education is the State Program of Educational Development,[1] which provides for the implementation of the Law on Education 547/1995. Policy directions in the reform of education are also embodied in the Law on Local Public Finances 123/2003 and other secondary legislation. All the above define the structure of the system and financing principles.

Another key policy document is the Poverty Reduction Strategy Paper (PRSP), adopted by the Parliament in Law 398-XV/2004, which puts forth the three pillars of the government's poverty reduction strategy:

> (i) sustainable and inclusive economic growth that will provide the population with productive employment; (ii) human development policies emphasizing increased access to basic services (especially primary medical services and primary education); and (iii) social protection policies targeting those most in need.

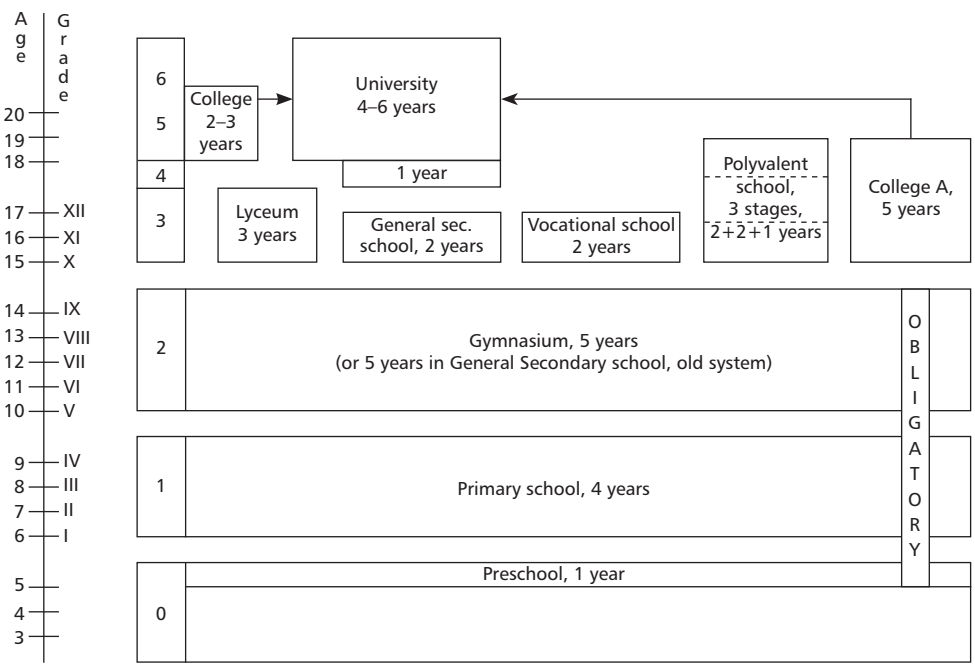
Education, along with the economic growth and protection of those in need, is considered one of the main factors ensuring the sustainable development of the country. Various donors active in Moldova, such as the World Bank, the European Foundation for Professional Training, UNICEF, and the Soros Foundation–Moldova acknowledge the importance of education and support the reform. Some of the most important projects implemented with donor assistance are:

- IPEP (Individual Preschool Education Program), financed by the UNICEF Cooperation Program.
- The project on general education reform in Moldova, co-financed by the World Bank and designed for primary and secondary education (grades one through ten). The main objective of this project was to improve quality in education by modernizing the syllabus, drafting new manuals, developing the capacity of teachers, creating and implementing new pedagogic techniques, and creating a modern system to assess school performance.

- The "Assistance in Professional Training System," supported by TACIS, aimed at developing a modern system of primary, secondary, and vocational education adaptable to changes in the labor market. The focus of the project was on institutional development and policy reform.

The major achievement of Moldovan education reform is the transition from the Soviet educational system in 1995, focused mainly on general education, to a multi-level modern system including high school and vocational schools. The reform lasted until the end of 2007. The current structure of the educational system (Figure 1) is oriented towards European standards. Mandatory general education is nine years. Obligatory attendance of classes finishes when the student reaches the age of 16.

Figure 1.
Structure of the Education System in Moldova



Preschools provide care and education for pupils between three and six years old. Preschool education is mandatory, but in reality, actual enrollment rates are well below universal enrollment, as a result of insufficient resources, as will be detailed later.

Primary education includes grades one to four. Students are admitted into primary education at the age of six. Few schools offer only primary education. Very often, all forms of pre-university education (primary, lower, and upper secondary) are provided at the same school. This situation is a leftover from the older Soviet school structure.[2]

Lower-secondary education include grades five to nine. This level of education is offered in gymnasiums, general secondary schools (GSS), and high schools.

Upper-secondary education. Under the old system, upper-secondary education consisted of grades 10 and 11 delivered in high schools; under the new system, high schools include grades 10–12. Students graduating from high schools get the *baccalaureate* degree that is a prerequisite for admission to university.

Starting in 2008, all general secondary schools (GSS) are transformed into high schools. This process is slow, however. Currently, there are only two "high schools" in the real sense of the word. The most common situation is that all levels of education are provided in one school unit, where the same teachers provide education to gymnasium and high school students alike. In the rural areas, given the small student population, an excessive form of school consolidation takes place. The rural school hosts students in all forms of education, from primary to high school,[3] with teachers delivering several topics—such as chemistry, mathematics, physics, and biology—for all levels of education. While this has some positive impact on the internal migration of students, the main impact is a significantly lower quality in teaching.

Vocational education is offered in two forms: professional and polyvalent education.

Professional programs vary in duration. Typically, these programs accept students who have completed lower-secondary education. Students who graduate from vocational schools cannot apply for university studies.

Polyvalent programs are structured in a three-level structure:

- Upon completion of the lower-secondary education program, students are accepted in a polyvalent program, which they can graduate from in one year, with a certificate of *worker*.
- Students who decide that they want to continue their studies can go for the second level of the polyvalent school, based on a competitive process. Upon graduation, they obtain a certificate of *skilled worker*.
- Finally, students who go for the third level obtain a certificate of *technician*. Students graduating from polyvalent schools can apply to universities.

At present, the majority of polyvalent schools are being transformed into colleges.

Most colleges accept students graduating from GSS (grade 11) and high schools (grade 12), but some colleges (pedagogical colleges and colleges of art and music) accept gymnasium graduates (grade nine). The duration of study is five years for grade-nine graduates, three years for grade-11 graduates, and two years for grade-12 graduates. After four years of study in a pedagogical college, or three years in another college, students are entitled to compete for the *baccalaureate*. If successful, they may be admitted into university. If they decide to continue onto higher education, students take a special program (three years instead of four years after high school).

Universities accept graduates with *baccalaureate* diplomas, based on the scores they achieved. The duration of studies is from four to six years.

Most schools are under the responsibility of the Ministry of Education. Some professional/polyvalent schools, universities, and post-university institutions are the responsibility of sector ministries, while other schools and universities are private.

Table 1.
School Network Development

Number of Schools	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Preschool	1,135	1,128	1,192	1,246	1,269	1,295	1,305
Primary	115	120	120	119	116	104	96
Lower secondary (Gymnasiums)	674	674	672	669	667	664	668
Upper secondary (High schools)	183	198	211	284	369	387	442
General schools	601	554	546	538	380	359	296
Vocational	80	82	83	83	81	78	78
TOTAL Schools	1,566	1,577	1,580	1,576	1,570	1,551	1,539
Students	629,327	618,387	603,385	578,705	546,615	517,029	491,482
Teachers	42,300	42,500	41,600	42,600	41,000	40,900	40,000
Students-teachers	14.9	14.6	14.5	13.6	13.3	12.6	12.3
Students-school	402	392	382	367	348	333	319

In the Soviet period, preschool education was under the patronage of state-owned, local economic agents, the so-called *kolkhoz*. Once the USSR broke apart, and Moldova had to cope with economic collapse, most of the *kolkhoz* closed. As a consequence, the majority of preschool institutions were discontinued. In an attempt to resolve the situation, local authorities took over the responsibility of running the preschools, and added the debt of the economic agents to their consolidated budget. Between 1995 and 2000, however, local authorities had to deal with very tight budgets themselves and discontinued the financing of the maintenance for preschools. This resulted in a significant deterioration of the buildings. The crisis ended in 2003, when local governments saw major increases in their budgetary income. This allowed them to re-open preschools. Despite this, today, only 60 percent of preschool-aged students are enrolled.

Regarding secondary education that started in 2004, one can notice a significant decrease in the number of schools, mainly as a result of the decreasing number of

students. Additionally, the quality of education delivered decreased significantly, mainly as a result of the cumbersome process of turning old general schools in colleges and high schools.

Access of rural students to high schools is difficult. One impediment is the lack of transportation; the second is the absence of accommodation for the students. The central government's solution is to insert "high school" classes into existing rural schools, as mentioned above.

DIVISION OF RESPONSIBILITIES AMONG LEVELS OF GOVERNMENT

The central government is planning to slowly give up its authority in areas such as organization, financing, and assessment of education. However, a snapshot of the system reveals almost complete centralization for all policy competencies, from the determination of policy standards in education to the execution of policy.

The allocation of education responsibilities among different levels of government is regulated by the Law on Education 547/95, the Law on Local Public Finances 123/2003, and other secondary legislation. According to the Law on Local Authorities (Articles 10–13), first-level local governments (municipalities) are responsible for preschool, primary, and high school education. In some cases, high schools are under the jurisdiction of a higher administrative level than the municipality, namely the districts (or *raions*). The state also delegated professional education, boarding schools, and high school hostels to *raions*.[4] The principle according to which a high school is considered either under the municipal or *raion* subordination is determined by the catchment areas—whether students are attracted from the municipality only or also from the whole *raion*.

Local governments can submit proposals for opening, reorganization, and closing schools.[5] The Board of Education[6] at the *raion* level then analyzes the documents and submits a proposed decision for approval to the Ministry of Education. In the case of high schools, special, and professional schools that are subordinated to the central authorities, the Ministry of Education makes the decision. Obviously, the Ministry of Education needs to submit the ultimate decision for government approval.

Wages, social, and medical insurance expenditures for education personnel are the responsibility of the deconcentrated departments of the Ministry of Education, at the level of the *raion*.

The government frequently transfers new powers and tasks to the *raions* and local governments without any financial support. An example of an unfunded mandate is Governmental Decision 542/2002, which mandates paid housing—or payment of mortgage interest—by local authorities for young teachers who settle in rural areas. The Ministry of Education should ensure their salaries. Because the local government revenues were not high enough to cover this additional expenditure, the law was implemented

starting in 2006, when the government allocated around EUR 600 per academic year for each young teacher.[7]

At present, most of the local governments in the rural areas, as well as a large number of rural small municipalities, are facing an acute personnel crisis. In order to address this situation, the Ministry of Education attempted several approaches. One of them was to overburden existing teachers with larger teaching norms. Currently, many of the teachers in the rural areas have a norm twice or almost three times higher than teachers in urban schools. A second approach is requesting a teacher to teach several topics. Finally, retired teachers were offered their old jobs or new teaching positions.

The ministry is in charge of the overall management of the school, from the organizational chart to the selection of school directors and teachers. The director of the school, however, can hire additional teachers if needed, but only with the approval of the *raion*. Inspection and monitoring of school performances and finances are ensured by the deconcentrated offices of the Ministry of Education.

Local governments are responsible for maintenance of schools, while capital works are under the responsibility of the central government. Capital projects are financed through categorical grants.

An area that is still untouched is support for private education. Central government has failed to create adequate conditions to support the growth of private education, such as a definition of standards or the involvement of the private sector in financing and management of professional education.

THE BASIC STRUCTURE OF EDUCATION FINANCING

The education budget in fiscal year 2003 represented 26 percent of the state budget and six percent of GDP.

The main financing sources for education are:

1. **State budget**, in the form of shared revenues and transfers (grants) for local governments:
    - State taxes, like corporate income tax, personal income tax, and charges from roads, are a source of shared revenues. Part of the revenues collected are retained locally, while the remaining portion goes to the central government budget. The percentage of shared revenues is defined annually by the budget law. The specific feature of this regulation is that the minimum percentage of shared revenues to be kept by respective local government should not be less than 50 percent.[8]
    - Transfers (grants) are calculated by a formula. There are two types of transfers. First, there is a *general transfer*. The amount of the general transfer is

calculated to fill the gap between anticipated revenues and expenditure needs. This is an equalization mechanism—local governments which have revenues per capita exceeding the average expenditures per capita by 20 percent should transfer its excesses to the central budget for its redistribution among other local governments. Second, there are special allocations to fund-specific activities. Transfers are made from the central government to *raions*,[9] which allocate them onwards to local governments.[10]

2. **Own revenues of local governments** (local taxes and other revenues from renting local facilities). Own source revenues are collected from taxes and fees, approved by each local government, and go directly into the local budget. In the structure of local revenues, own source revenues constitute around 40 percent.
3. **Own revenues of schools** (the "school fund," revenues from extracurricular courses, rental revenues).

Table 2.
Preschool, Primary, Secondary, and Vocational Education Expenditures as a Percent of GDP and Public Expenditure (MDL million)

	2001	2002	2003	2004	2005	2006	2007	2008 approved
Gross Domestic Product (GDP)	19,051	22,556	27,297	32,032	37,652	44,069	53,354	63,200
Total public expenditures	43,259	51,942	61,834	11,407	14,527	17,845	22,355	24,500
Education expenditures	923	1,240	1,498	2,169	2,697	3,605	4,240	5,230
Percent of GDP	4.8	5.5	5.5	6.8	7.2	8.2	7.9	8.3
Teachers' wages	3,369	4,633	6,102	7,107	8,818	12,093	13,510	15,500
Percent of teachers wages from average wages in economy	62.0	67.0	68.5	64.4	66.9	71.3	65.4	59.6
Wages share in total education expenditures** (%)	—	—	—	86.9	84.0	80.5	82.8	82.2

Notes: * Up to 2003 State Budget, from 2004 National Public Budget, which includes the state budget, local budgets, social budget, and health budget.

** According to IDIS Viitorul survey, March 2008.

At the time of budget preparation, the Ministry of Finance communicates the methodology of developing the budget to local governments. Local governments need to present their estimates of expenditures to the Ministry of Finance. They include in their budget proposals the school budgets.

School budgets are composed using the number of potential students in the *raion* at the beginning of the year and at the end of reporting year. These numbers are provided by the Statistics and Sociology Department. Next, based on the existing school population, average expenditures are estimated. This approach introduces several distortions. In the case of preschools, for example, only around 60 percent of the students are currently enrolled in preschool education. However, current budget planning starts from the assumption that all students aged three to six in each *raion* are enrolled, and average costs are used to create the budget proposal. The planned budgets reflect much higher needs than reality. The same goes for primary and secondary education.

Between 1998 and 2003, financing of education was made through a block grant (general transfer) which was calculated on the basis of expenditure norms. Local authorities enjoyed significant discretion over the allocation of the block grant for various local services. However, given that the need of local governments was constantly larger than the transfer received, one of the results was that teacher salaries became secondary in importance and, in many cases, teachers would not receive their salaries for three to six months. To address this issue, the central government went back to the system of categorical grants in 2003.

Currently, salary expenditures are secured in a conditional grant allocated to local governments through annual budget laws. The central government sends the funds for salaries to the *raions*, and the *raions* pay the school personnel directly. The local government records the salary payments in its accounting system, though it neither sees nor "touches" the money.

The *raions* also pay funds for maintenance. Capital grants are allocated in the state budget by the central government and sent directly to the local governments, which pay on behalf of the school (the school is tertiary budget coordinator).

Maintenance amounts to about 20 percent of the education portion of the local budget, and is co-financed by local governments. In order to cover this need, local governments should routinely allocate twice the grant received from the center. While wealthier local governments have managed to cover this need, poorer local governments have been critically underfunded for maintenance.

More than maintenance, the financing of major school repairs by local governments is on the decrease. Within tight budget constraints, their contribution amounts to more than half of the total capital expenditures.

Parents of students are an important contributor to the education budget in Moldova. It is current practice that parents contribute to teachers' salaries. In Chisinau, for example, teachers can receive about one additional salary that has been collected by the parents.

ASSESSMENT OF EXISTING FRAMEWORK FOR EDUCATION FINANCING

Good Governance and Improvement of the Education System

The main problems of the education system in Moldova are the unclear allocation of responsibilities between levels of government, incoherent fiscal decentralization reforms, and, as a result, significant gaps between the autonomy of local communities, as it is defined in various policy documents, and how this actually takes place.

The efficiency of the school network is hindered by several factors:

- In Moldova's northern and southern regions especially, the distance between rural communities is large. This significantly increases the cost of transportation if a consolidation of schools is undertaken.
- Many districts have a high level of ethnic diversity, which means teaching in several languages aside from the official one. This increases teaching costs in schools, where topics can be taught in two languages (Moldavian and Russian), if consolidation is considered.
- A continuous decrease in student population.
- School infrastructure is a holdover from the Soviet times and is very expensive to maintain.

The average number of students in a class is around 22, though this indicator differs from district to district.

The vast majority of small local governments have slight deviations from the national average. There are two extremes, however. In one, municipalities of Chişinău and Bălţi have over 25 students in class, while the other six districts (at the bottom of Table 3) have less than 20 students. Additionally, in some urban areas, there are schools with a few classes with over 34 students. This is a result of not just a gradual decrease in the student population,[11] but also of recent migration of students from the rural to urban areas. Obviously, this increases the pressure over local governments in terms of school network rationalization.

Table 3.
Districts and Average Number of Students per Class

Number of Students	District	Number of Students
Greater than 25 students	Mun. Bălți	27.1
	Chisinau	25.7
22–24 students	Hîncești	23.9
	Găgăuzia	23.3
	Basarabeasca	23.2
	Ialoveni	22.9
	Cimișlia	22.7
	Dubăsari	22.3
	Strășeni	22.3
	Drochia	22.1
	Ștefan Vodă	22.1
	Anenii Noi	22.0
20–22 students	Glodeni	21.9
	Călărași	21.7
	Criuleni	21.5
	Nisporeni	21.5
	Ungheni	21.5
	Leova	21.3
	Telenești	21.3
	Orhei	21.2
	Sîngerei	21.1
	Căușeni	21.0
	Cahul	20.8
	Soroca	20.6
	Taraclia	20.5
	Fălești	20.3
	Briceni	20.2
	Cantemir	20.2
	Florești	20.1

Number of Students	District	Number of Students
Less than 20 students	Rîşcani	19.8
	Rezina	19.7
	Edineţ	19.6
	Şoldăneşti	19.3
	Donduşeni	18.6
	Ocniţa	18.1

Local Partnership and Education Improvement

More involvement of the local communities is needed to address several issues for which local governments have little resources. The maintenance, capital repairs, as well as meals for students are some areas where there is insufficient funding from both the central and local government level.

Parents are greatly involved in financing the maintenance of the schools. Until 2002, this process was not regulated and parents contributed regularly to a special fund used for maintenance. However, this led to abuses. As a result, starting in 2002, school boards are in charge of the collection and management of financial resources.

If low or no funding for maintenance does not lead to closure of schools, the real problem becomes that of capital repairs, which require efforts above the capacity of local and central governments. Here, external assistance is still needed, and one such solution within Moldova has been the Social Investment Fund of Moldova (SIFM), which has already financed major school repairs. In 2005, for example, 71 schools and kindergartens were repaired using the fund and parent contributions. Overall, around 60 to 80 units were repaired. The first project of the fund, budgeted for over USD 25 million was completed in 2004. A new fund is currently in use and has a budget of more than USD 35 million.

The strategic alliance between local communities and the central government is a vital factor for projects to be approved under SIFM. In other words, 15 percent from the cost of the project needs to be supported by the applying community. This increases the responsibility of the community to the project, not only during the project's life, but also after its closure, when further maintenance is needed.

Another important issue is ensuring school meals. This item should also be financed by the local government. Most of them, however, cannot provide the necessary funds. According to the law, each student should receive a meal equivalent to MDL 1.5 per child per day.[12] Obviously, USD 0.1 per day is not enough for a student meal.

Since 2000, an international organization was the main financing source for the meal program. In 2004, when the program ended, the organization started to look for additional financing solutions. They contacted a local organization (IDIS Viitorul), and together they organized a number of conferences on the local, regional, and national levels where they promoted the creation of extrabudgetary funds at the local level as a source of financing school meals for students. More details on this initiative are described in Appendix 2.

Flaws in the fiscal framework also lead to inefficiency. One specific issue is inefficient expenditure norms elaborated by the Ministry of Finance. Expenditure estimates are based on the availability of resources rather than on need. Expenditure needs should be assessed based on real needs, such as the percentage of elderly in the population or the number of school-age children.

Exemplifying this is the estimate of maintenance expenditures, which are now calculated based on the number of students. As a consequence, small rural locations that have a reduced number of students also have a disadvantage compared to bigger locations. While there is a causality between these two variables, there are several other ways to better reflect the needs—and use it for budget-planning purposes—such as the use of coefficients.

This would involve using a coefficient such as k1 = 1.3 for those local governments with a population lower than 1,000 inhabitants. In order to encourage local authorities to concentrate resources, and to avoid opening schools in very small locations, another adjusting coefficient could be used where students need to walk more than seven kilometers to the school (such as k2 = 1.2).

The final calculation of the cost for a student who has to attend school in another locality could be performed in the following way:$S = S0 \times k1 \times k2$, in which *S0* is the amount allocated for a student regardless of the location, and *S* is the adjusted amount received in the case of a small local government where students need to walk more than seven kilometers to school.[13]

CONCLUSION

The Overall System for Financing Education

Until 1998, education was financed using categorical grants for each budget item. In other words, local governments would receive money separately for each education function (salaries, maintenance, etc.), and could not change the destination of the funds. Starting from 1999, when local self-governance became the goal for public administration reform, the financing of education used a single per-student norm.

Still many municipalities encountered difficulties in organizing the educational process and providing a well-functioning school. As a result, many of them were delaying payment of teachers' wages. Then the central government returned to a more centralized system, where teacher salaries are now paid directly from the national budget to schools. Paradoxically, the local budget is adopted together with teachers' salaries (50–70 percent of the local budget), though the local authorities actually manage only 30–50 percent of the budget. Moreover, beginning in 2002, the teachers' wages have increased much faster when compared to the norms for this item. If, in 2001, salaries constituted around 50–60 percent of the budget for education, then at present it may reach 70–90 percent. The remainder of the budget is insufficient to ensure the minimum funds necessary for the functioning of schools, and local governments are too constrained to allocate own revenues to education. Presently, the vast majority of local governments at the community level provide only one single service—education.

The current model used to estimate costs has a set of deficiencies:

- the aggregated funding level is calculated per student, whereas teacher salaries are determined on the basis of hours taught;
- the number of classes decreases from year to year, and in rural localities the number of groups with less students increases, a consequence of demographics in the republic;
- schools are allocated almost equal amounts for electricity, heat, water, etc., while the tariffs for these services vary across the country. Regional discrepancies in financing maintenance occur as a result of an inefficient expenditure norm calculated based on average expenditures. This affects the rural schools which have greater needs for financing.

A New Methodology to Calculate Normative Education Expenditures

The current legislation does not clearly stipulate the competences of each administrative level, nor does it guarantee the financing sources necessary for the performance of these competences. As a consequence, a doubling-up of competences and confusion in the implementation of functions very often happens. The financing arrangements also reflect the lack of clarity in the allocation of responsibilities.

In the short term, the existing system should be altered by introducing an adjustment coefficient that could add to the existent expenditure norms. For the small localities, an adjustment coefficient of 30–40 percent should be used. In other words, these localities should get 30–40 percent over the basic sum. In the long term, however, a completely new financing system should be created.

To that end, the following steps could be taken:

1) Create sectoral legislation, including a separate law for the allocation of responsibilities in education for each administrative level. The delimitation of competences should be accomplished considering the following: (i) administrative capacity and (ii) the right of decision-making for the qualified authorities.

   More specifically, maintenance should be under the authority of local governments, while capital investments should be undertaken by the *raions*. This way, this delimitation of authorities will ensure the good functioning of the educational system: each administrative level will have total freedom concerning the decisions regarding the modality of organizing the education within its limits of empowerment. The municipalities should have the right to decide how to heat, repair, or purchase materials for their schools. The *raions* should be empowered to decide, where, when, and how will the capital investments be performed. And the state should decide about the size of teachers' salaries. This way, the decisions taken by one level will not affect other levels.

2) Reform of the system of public finances. At present, local governments are completely dependent on the *raions* and the central government in terms of collecting revenues and managing expenditures. Local governments have no discretion in drafting local budgets; local budgets are adopted by the *raion* council and further approved by the Ministry of Finance. A new system of local public administration has to be conceived in a way so that each administrative level receives sufficient own resources, in order to be able to exercise its own competences established by law.

In other words, in Moldova, the improvement of the system of education financing should include a more clear allocation of responsibilities and a local government finance system that would enhance local fiscal autonomy.

NOTES

[1] No. 337-XIII/1994.

[2] Until 1996, Moldova had two parallel education systems: one based on the Soviet system and the new one. In the first system "general education" was provided, which meant that no distinction was made between primary and secondary, so one school would host students for both levels. Today, there are still many schools where the two systems coexist, where half of the school studies according to the Soviet system and the other half (usually the better students) studies in a system divided by lower- and upper-secondary education. The closure of the old general schools should be finalized by 2010.

[3] The so-called "high school classes."

[4] Until 1999, Moldova was divided into 33 *raions*, each of them with a population of 70,000–90,000 people. After the 1999 reform, 12 districts were created and replaced the *raions*. The districts, however, were less developed economically than the *raions,* and could not address the problems that were under the jurisdiction of *raions*. This was a perfect reason for the Communist Party to return to the *raion* system in 2003, putting a halt to all reforms. Districts lost responsibility for boarding schools, high school hostels, special boarding schools, professional schools, and art schools. The 2003 halt severely affected the autonomy of local governments, to the degree that in 2005 Moldova was at risk of being eliminated from the Council of Europe. At present, Moldova has an obligation towards the Council of Europe to improve the quality of local autonomy, including in the domain of education.

[6] Article 40/1, Law of Education 547/1995.

[7] The boards of education at the *raion* level are a strange mixture of local and deconcentrated government. The *raion* is secondary local government. Each *raion* is governed by a locally-elected council. *Raion* councils elect executive committees from among their members. The board of education employees are, however, under the jurisdiction of the Ministry of Education. Essentially, a local government level is running a deconcentrated department of the ministry.

[7] This was accomplished with the support of external assistance. It is not clear whether the program will be implemented further.

[8] Given the economic reality of Moldova, the only local governments that share its revenues with the central government are local authorities of municipalities of Chisinau (the capital) and Balti (the second largest city). All other territorial units keep their full revenues from "taxes on business activity" (FY 2006 State Budget, Appendix 23). For more details, see Morozov (2006).

[9] There are no clear rules for allocation. In practice, the "list of needs" is established based on a per-capita normative revised by each *raion*, using its own methods. This creates a situation where the norms included in the transfer calculations received from the state budget do not correspond with those included in the transfers from *raions* to local governments. Therefore, some local governments receive more transfers than others of the same size. In an attempt to make the allocation process more transparent and predictable, some *raions* (Orhei, for example) created their own coefficients in order to offer transparency and predictability in allocating funds to local governments. These coefficients are not monitored by the central government.

[10] The Municipality of Chisinau receives the least transfer revenue (just five percent of its total revenue comes from general transfers). The remaining local governments account for 10 percent up to 80 percent of their total revenue from general transfers.

[11] In the last three years the number of students decreased by 30 percent.

[12] USD 1 = MDL 12.5.

[13] This is a proposal of IDIS Viitorul, suggested in 2002, that was tested in eight local governments from three regions in Moldova.

APPENDICES

Appendix 1

Table A1.1
Delimitation of Jurisdiction among Administration Levels (Proposal for Reform)

Administrative Level	Type of Decision Allocated
Ministry of Education	Education development policies Strategic directions of educational policies' implementation Design of standards Elaboration of assessment mechanisms Elaboration of educational plans and programs School network Design of financing arrangements Professional development of teachers
District Boards	Monitoring of educational policy implementation Determination of the strategy of educational policy implementation Curriculum supervision School network Assistance in technical issues (methodology, specialization)
City/village administration	Do not have authority over school opening or closure; can only submit proposals
Schools	Teaching Student evaluation Selection and promotion of specialists Increase of specialists' professional level Maintenance of schools

Appendix 2

IDIS Initiative: Using Extrabudgetary Funds to Finance Local Programs

According to Article 37 of the Law on Local Public Finances, local governments have the right to form extrabudgetary funds for financing local programs.

Extrabudgetary funds can be created by local authorities as well as by existing public institutions such as preschools, general schools, and other educational institutions. When an extrabudgetary fund is created by an educational institution or other public administration institution, its activity is regulated by normative acts of the Ministry of

Finance. When the fund is created by local authorities its activity is regulated by the Law on Local Public Finances.

The best way of extrabudgetary fund creation is at the local level, which would almost exclude direct any implication of the central authorities within the process.

According to the Law on Public Authorities, the set up of extrabudgetary funds is within the jurisdiction of local or *raion* councils. There exists a rule that must be observed during the entire period of the extrabudgetary fund's existence: every financial operation has to be executed with well-written documentation.

According to the Fiscal Code (Article12, p. 3) and Law on Local Public Finances (Article 37, p. 3), the accumulation and utilization of financial funds is performed using a special account of a specific organization opened at territorial treasury.

According to the Law on Public Local Finances (Article 37, p. 2) and the Law on Budgetary System and Budget Process (Article 12), extrabudgetary reserves are formed of:

- Voluntary contributions of physical persons and legal entities;
- Revenues obtained from local lotteries, competitions, and other activities organized by local authorities;
- Revenues of institutions obtained from services rendered, works executed, or from other activities allowed according to the legislation and other regulating acts.

The most important problem society faces in the process of this fund formation is the question of how to attract the interest of donors. As a rule, people will only grant money for solutions to real problems. If we try to create an extrabudgetary fund for the solution of the problems, the essence of which are not understood by the population, we will likely meet failure. The only solution is to explain the work to the population. Obviously, people better understand problems they face directly. For example, parents are aware of the question of meals provided in school, and as a consequence they are potential partners in any fund created to address this problem. We should take into consideration the fact that they are, at the same time, representatives of local entrepreneurs.

According to Article 2 of the Law on Philanthropy and Sponsorship 1420-XV, October 2002, sponsorship is considered as the financing of programs or activities within the domain of education, but Article 21 of this law presumes some tax concessions for grantors, which are stipulated in the Fiscal Code (Article 36, p. 1). The grantor can deduct from taxable income expenses that deal with philanthropic or sponsorship activity, but the deducted sum cannot exceed 10 percent of taxable income.

In order to have access to the above mentioned tax concessions, there exists the necessity of these donations' confirmation according to the legal framework that is stipulated in the Regulation on Philanthropic or Sponsorship Donations (Number 489) from May 1998.

According to the form of donation, they can be confirmed:

- If donations were made in a monetary form, and a confirming document is supplied from the donor in a free form that attests receiving of money free of charge and which is signed by the director and chief accountant of organization or beneficiary.
- In the case of donations of non-monetary origin, the confirmation of the donation can be made in the following way: donation contract is concluded in a free from, but in written form and in case of donation in the form of real estate a deed should be registered.

Thus, a simple receipt that contains two written rows, where the donation amount is indicated, needs to be issued. It is sufficient to show this document to the fiscal authorities. It is valid and for physical persons when there appears necessity to present a declaration of revenues.

Aside from sponsorship, there are other ways to replenish extrabudgetary funds. If a city/village administration or other public institution obtain some revenues, then upon decision of local council, the partial or full amount of these funds can be assigned to extrabudgetary funds. First, these actions permit directional usage of resources obtained. Second, there problems can be eliminated throughout the process of the transfer-sums calculation. In some cases, when a city/village administration obtained revenues that were not planned in the location's budget, district authorities can reduce the sum of transfers designed for this administration. In other words, in this case cash flow does not change, and the local administration has no interest in the increase of the location's budget revenues. As a rule, an increase in local budget revenues results in a decrease of transfers from district or state budget. That is why the importance of additional resources transfers in extra budgetary funds cannot be misunderstood.

One of the advantages of extrabudgetary funds is that when using financial resources through them, expenses decrease up to 20 percent, as stipulated by the Fiscal Code, Chapter 4, Article103, paragraph 1.4, which states that:

> VAT is not paid on the resources from the state budget and extra-budgetary funds for special purposes for financing different activities, with the condition that these funds constitute no less than 40 percent of the total funds designed for these activities.

Appendix 3

Table A3.1.
Division of Education Expenditure between Types of Cost (Teaching Salaries, etc.)

	2000	2001	2002	2003	2004	2005
Total for schools	7,075,692	9,110,017	1,224,255	1,481,585	1,709,251	1,947,689
Salaries and wages*	3,340,448	3,894,832	5,275,667	7,175,778	8,785,423	1,019,403
Payments for goods and services, including:	2,289,744	3,257,079	4,163,512	4,358,432	4,591,872	5,307,186
Electricity	337,357	584,622	673,772	677,144	657,102	679,782
Heating	383,603	495,765	505,713	660,038	590,759	472,492
Books magazines, and newspapers	28,076	19,744	51,416	22,956	23,259	3,316
Capital investment in construction	0	100	450,891	378,063	588,496	253,184
Acquisition of equipment and of long-term assets	51,003	114,551	200,824	155,639	181,866	109,866
Major repairs	317,204	441,884	79,260	643,347	1,168,699	343,732
Other expenses	112,635	12,462	1,142,449	877,155	826,288	410,294

Note: * Contribution to social insurance funds are not included.

Appendix 4

Table A4.1.
Percent Division of Education Expenditure between Types of Cost (Teaching Salaries, etc.)

	2000	2001	2002	2003	2004	2005
Total subsidies to "education"	100.00	100.00	100.00	100.00	100.00	100.00
Salaries and wages*	47.21	42.75	43.09	48.43	51.40	52.34
Payments for goods and services, including:	32.36	35.75	34.01	29.42	26.86	27.25
Electricity	4.77	6.42	5.50	4.57	3.84	3.49
Heating	5.42	5.44	4.13	4.45	3.46	2.43
Books magazines, and newspapers	0.40	0.22	0.42	0.15	0.14	0.17
Capital investment in construction	0.00	0.01	3.68	2.55	3.44	1.30
Acquisition of equipment of long-term assets	0.72	1.26	1.64	1.05	1.06	0.56
Major repairs	4.48	4.85	6.47	4.34	6.84	1.76

Note: * Contribution to social insurance funds are not included.

Appendix 5

Table A5.1.
Average Teaching Salaries in Relation to per Capita GDP

	2000	2001	2002	2003	2004 Plan
Gross Domestic Product (GDP) (MDL min.)	16,020	19,051	22,556	27,297	31,992
GDP/capita (MDL)	4,400	5,240	6,220	7,550	10,300
Average teaching salaries (ATS)	2,596	3,357	4,655	6,341	6,174*
ATS per year/GDP per capita	70.8%	76.8%	89.8%	100.8%	71.9%

Note: * Average salary in secondary schools decreased from MDL 685 to MDL 666. As for the education system in general, there was no increase in salaries.

USD 1 = MDL 12.5.

Financing Education in Romania: A Legacy of Incomplete Reforms

Casandra Bischoff and *Jan Herczyński*[1]

Interdisciplinary Center for Mathematical and Computational Modelling ICM Warsaw University, Poland
Insterdyscyplinarne Centrum Modelo-wania Matematyczne i Komputerowego ICM
Uniwersytet Warszawski, Polska

Executive Summary

Today's reformers of the education sector in Romania have inherited a deeply fragmented management and financing system embedded in a confused decentralization framework. Their task is to review the results of 18 years of incomplete reforms and to design a realistic and forceful strategy to complete them. This chapter aims to help the Romanian Ministry of Education, Research, and Youth (MERY) and its regional and county departments as well as local authorities in this regard.

A timeline of reform for the first and second half of the 1990s would place the reform in two phases of planning and partial implementation, respectively. The pace then slowed until 2004 when a new framework was tested in some pilot counties in order to strengthen school autonomy. New laws are about to come into effect at the time of writing that will formalize new arrangements for preschools and school staff but the reform will stall without further incentives and political will.

Several problems lie in the path of Romania reformers. The primary student population has declined by 11 percent in five years from 2001 to 2007 and this decline will soon hit the secondary schools. Over 1,300 rural schools have fewer than ten students, with an average of 53 students per school in rural areas compared to 345 students per school in cities. This inherited fragmented network of rural schools is creating almost insurmountable barriers to efficient and equitable education in rural areas. Over 20 percent of primary school graduates do not continue to secondary or vocational schools. Secondary education faces its own serious challenges. Vocational education is overburdened with large student numbers per teacher compared to elite general academic schools. Low salaries have contributed to many teachers seeking additional employment or lessons.

As Romania gradually shed the economic, political, and social trauma of communism, its leaders maintained a centralized state where power was based on regional representatives of the central government in 42 counties (*judete*). The education system was no different. Deconcentrated units of MERY, the county school inspectorates (*Inspectorul Scolar Judetian*), were responsible for implementing national norms in the education sector in the respective county under its authority. This system, whereby staff, costs, directors, expenditures, and policy have been decided for each school by the inspectorates, by default the central government, is still in place in 2008 (except for the eight counties under a limited pilot project since 2004, with no plans for replication nationwide). This not only precluded the creation of a system of more autonomous and accountable schools, but also excluded local governments from playing a major role in the sector. At the same time, however, this

centralized system was able to implement centrally mandated curriculum, textbook, and teacher training reforms.

In 1995, a new education law (No. 85) guaranteed children the right to free education free of ideology. Administrative boards were established, along with other school management structures; but giving them real power to make decisions was indefinitely postponed by the central government. At the same time, the law made local governments responsible for budgeting and financing maintenance, deepening the differences between the cities and rural areas. This is because the main revenues of the county and local councils are shares of local taxes, although a relatively weak national equalization fund is also in place. Local governments have a fair degree of discretion in the area of funding maintenance. At the same time, teacher and non-teacher salaries are the exclusive domain of the inspectorates and MERY. Although the funds for salaries nominally flow through the *judete* budgets, under a perverse system of *sume defalcate*, their use is tightly controlled by the center.

Under the terms of the Programmatic Adjustment Loan of 2004 from the World Bank, Romania recommitted to the decentralization of education finance and management, in the context of a larger reform of public administration. This has yet to be translated into law, even if the framework and proposals were there in 2004, while the debate about targeting decentralization to schools or local governments remained unresolved. Conflicts in the current legislation have confusingly assigned fiscal and management responsibility to all parties, including the central government. Except in eight pilot counties, the county inspectorates control the opening, management, and closing of kindergartens, primary and middle schools, and vocational and scholarship schools; they hold the contracts with the school directors, not the local government or wider community.

Financing arrangements are also complicated by inconsistencies in the new education law of 2004 (No. 354) on financial flows for education (own revenues or education grant) and fragmentation in the financing system. Difficulties of setting the basic-per-student cost standard and unresolved debates over the criteria of the methodological norms that should determine it have stalled effective implementation of the law. A lack of a clear leadership regarding education decentralization and disagreements between different ministries have been counterproductive to meaningful progress.

In theory, the new legislation supports decentralization as a basic management principle for managing and financing education with a per-student cost standard mandated by the central government. Costs are supposed to be calculated according to differences in basic, complementary, and compensatory financing, although the definitions of these categories are confusing. The National Council for Pre-university Education Financing should be responsible for determining this amount in consultation with other stakeholders. But without an

effective assessment mechanism to measure whether the standard cost is appropriate, this institution has not been very assertive under the watch of its parent organization, MERY. No established system of cost standard has been so far discussed and approved, and thus the financial provisions of the 2004 law remain unimplemented.

A specific Romanian dissolution of budgetary responsibility, called a "budgeting vacuum" in the report, contributed both to underfinancing and to low external efficiency. Consequently, Romania sits at the bottom of the scale for resources devoted to education in the region (3.1 percent of GDP in 2001, compared to an OECD average of five percent), even if overall spending has increased. A dramatic fall in student numbers (annually five percent) has exacerbated the inefficiencies in the school system. Disparities between rural and urban localities are not effectively addressed, leading to inequity.

It does not seem likely that the confused managerial and financial arrangements plaguing Romanian education can be reformed without a more fundamental review of what Romania wants to do with its centralized governance system. The Ministry of Education, Research, and Youth needs to develop a coherent decentralization strategy, in line with the overall decentralization process, and to address the main real challenges, that is fragmented school networks, a low scholarization rate for secondary education, and inadequate education quality. This, in turn, may create a space for informed discussions regarding what cost standards are needed and how they should be implemented.

INTRODUCTION

In the early 1990s, all transition countries faced significant problems in developing new management and financing structures for their education systems, and Romania was no exception. The economic decline was severe and recovery much delayed. Turbulent political processes did not create the stability necessary for a measured and rational devolution of authorities from the highly centralized education system characteristic of communist regimes. In those adverse circumstances, Romania did make remarkably determined efforts in modernizing, streamlining, and decentralizing its education sector. It is, nevertheless, not surprising that those efforts were not fully consistent or coordinated.

Today's reformers of Romanian education have inherited a deeply fragmented management and financing system, embedded in a confused decentralization framework. Their task is to review the results of 18 years of incomplete reforms of the sector, and to design a realistic and forceful strategy to complete those reforms. The present report, in part, aims at helping the Ministry of Education, Research, and Youth (MERY) achieve the first of those objectives.

The identification of stages of education reform in Romania has been subject to much discussion (for instance, Velea and Botnariuc 2002, Halasz 2002, Berryman *et al.* 2006), and is largely dependent on the focus of specific research.[2] However, the focus of education finance, adopted in the present report, justifies the following timeline:

- 1990–1995: *preparatory phase*, during which most of the reforms were reactions to the excesses of the communist period, including de-communization and removal of overly ideological education content; the focus was the adoption of an interim curriculum; the reforms were introduced in legal documents of the government of Romania (ordinances and decisions) and of MERY (orders), and implemented by the ministry and by deconcentrated county offices of MERY Inspectoratul Scolar Judetean (ISJ); the preparatory phase concluded with the adoption of the Law on Education 85/1995 (it reduced obligatory schooling to eight years); the school finances were still completely centralized through ISJ.
- 1995–2000: *reform phase*, based on the new education law and supported by World Bank projects[3] and by the EU;[4] a new coherent national curriculum was defined (including a balance between the compulsory and elective courses) and multiple textbooks introduced (three or four textbooks per each grade and subject); the implementation of the reforms was in part delegated to a number of national councils working alongside the ministry; in 1999 compulsory education was extended to nine years of education; the financing of school maintenance was devolved to local governments, while a principle of per-student financing was put into Law 85/1995, although never implemented; in 2001 the funds for school staff salaries were channelled through local budgets, thus creating some tension as they are still fully controlled by the ministry.

- 2000–2004: the *slowing of reforms*, with a reduction of the elective courses in the school curricula and suspension of further moves towards the increased autonomy of individual schools; introduction of an incentive mechanism to attract qualified teachers in rural areas; transfer of capital expenditures to the level of local governments.[5]
- In 2004, Romania introduced a new framework of education finance and management, as described in some detail in Section 2; the framework foresees increased school autonomy and a new financing system based on standard costs, though its implementation remained only partial. A number of pilot projects were designed but only partially implemented.
- In 2008, MERY prepared from education laws, including the new law on pre-university education and the new law concerning teaching personnel. These new laws are currently undergoing public debate and will most likely be enforced starting this year.

The incomplete character and slow implementation of reforms in the education sector did not allow Romania to effectively tackle its difficult external problems, which it shares with its neighbors in the region. Following Voicu and Begu (1999), Halasz (2002), and Herczyński (2005 and 2006), we can propose the following list of main problems, directly pertinent to the institutional and financial arrangements in education:

- *The demographic decline of the student population*. Between the school years 2001–2002 and 2006–2007, the number of students in primary schools fell by 11 percent, and the decline will continue at a higher rate still. The decline will soon hit the secondary education system, too. While in the cities this process may bring improvements in the class size and allow better access of students to teachers and to other school resources, in the rural areas this threatens the financial viability of providing education and will significantly increase the per-student costs without any improvement in quality.
- *The urban-rural divide in education*—namely small rural schools providing education of insufficient quality and lacking qualified teachers and proper equipment. The operation of these schools threatens the equity of the education system and is a source of serious inefficiencies. The average school size is 53 students in rural areas and 345 students in the cities, and over 1,300 rural schools have fewer than 10 students (Voicu and Begu 1999).
- *Insufficient level of transition from primary to secondary education*. In the school year 2006–2007, 97 percent of seven- to 10-year-old children were enrolled in schools, 95 percent of 11–14 year olds , and only 75.7 percent of 15–18 year olds (INS 2008). This means that over 20 percent of graduates of primary schools do not continue their education at all, not even in basic vocational schools.

- *Excessive share of vocational education students in secondary education*. In 2006-2007, the vocational schools taught 23 percent of all secondary school students. This national average, however, hides significant regional variations. While in Bucharest 16 percent of all secondary students attend vocational schools, in Iasi County we find 28 percent (see Appendix, Table A1.1).
- *Vocational education has an excessive number of students*—namely over 31 students per teacher, compared to 12 students per teacher in general academic schools (see Voicu and Begu 1999). This must significantly impact the teaching quality of vocational schools and reveals an inherited preference for high-quality, elite, general academic schools.
- *Low teacher salaries force many teachers to seek additional part-time employment*. The average teacher's salary is equal to 0.66 of GDP/capita, a low level compared to the OECD average of 1.33 of GDP/capita for primary education and 1.37 of GDP/capita for secondary education (see *World Bank Education Policy Note* 2007). This is a common problem in transitional economies, where governments are afraid to undertake more active policies with respect to teachers, by increasing their teaching load to western European standards, decreasing the number of teachers employed, and raising their salaries. While this is a difficult strategy to design and implement, without such a strategy it will be difficult to ensure that all teachers treat their work in schools as their main employment.

Each of these significant problems requires careful analysis, and each has a significant impact on the management and financing of Romanian education. Moreover, it is clear that decentralization limits the range of available policy options, and influences the costs and manner of implementing those policy options.

In December 2004, a new government was elected. Administrative and fiscal reforms in Romania were accelerated, in part in response to the challenge of imminent accession to the European Union. MERY was among the most active participants in the new reform movement, pressing for a far-reaching decentralization of education. The new initiatives and programs are, however, beyond the scope of this report, since their full implementation has not yet really begun.

Accordingly, the structure of this report is as follows. First, we review the education law of 1995 and the fragmented managerial and financial system it created. Secondly, we discuss the revised framework introduced in 2004, which tried but failed to complete the reform process. Thirdly, we describe some key open issues of education finance in Romania, and in the final section we conclude with some recommendations.

REFORM EFFORTS 1990–2004

The Romanian Centralized Model: Inspectoratul Scolar Judetean

In the early 1990s, as successive political leaders tried to steer the economy away from collapse, Romania continued to maintain a highly centralized system. This system was based on regional representatives of the central government in 42 counties (*judete*), directly nominated and controlled by the central government. The education sector was no exception, and the county-level deconcentrated offices of the Ministry of Education and Research, called Inspectoratul Scolar Judetian (ISJ) or County School Inspectorates, were responsible for implementing national norms concerning employment conditions, enrollments, curricula, graduation examinations, budgeting, class sizes, and other functions. They planned the detailed budgets of all their schools, and executed those budgets under difficult conditions of scarcity and poverty. The inspectorates also controlled the division of students into classes and the teaching plans of every school, and paid all their expenses, including salaries. The inspectorates not only nominated school directors, but also organized the selection process for the employment of teachers and effectively employed all teachers in the country. Thus, the school directors had little influence on the selection of their teaching staff. This unique feature of Romanian education is still operational in 2008 (with the exception of eight counties that have been included in a pilot program in 2004) and will be discussed in some detail in our report.[6]

This prolonging of centralization had both fortunate and unfortunate consequences. On the one hand, during the period of contracting economy and decreasing allocation for all social functions, the government's patronage provided some measure of support and protection and helped ensure some basic standards across Romania. For instance, the schools were the only national-level institution able to distribute to all students across the country their fixed monthly allowance.[7] On the other hand, the retention of centralized governance slowed down the development of local governments and more autonomous and accountable schools. School staff, especially school heads, their deputies, and accountants, were not learning responsible management of institutions or budgeting procedures. It also promoted the attitude that pedagogical, organizational, and financing norms defined in Bucharest were to be the main guidelines for the operation of the schools, and impeded any moves towards a more rational use of school recourses.

The managerial and financial tasks of the inspectorates, exercised in such difficult conditions, also made it difficult for them to acquire new skills and capacities, such as monitoring teaching quality and education results, in preparation for a different future role in the decentralized education system.

The Education Law of 1995

1995 is generally considered to represent the first significant step towards education decentralization in Romania. The work on a new law governing the education sector was initiated in 1993 and the process was finalized in July 1995. Abrogating the old education law 28/1978, the new law 85/1995 put Romanian education on a sound legal basis, guaranteeing education for all children, free of charge, and free of ideological distortion. For pre-university education there were several innovations. The law established administration boards (councils) that could be involved in the administrative decision-making process. The councils had to include five to 11 members.[8] Preparatory groups at the preschool level were also established to ensure the continuity between preschool and primary school.

However, while the law laid down the basis of school-based management structures, it gave schools little power over critical issues such as personnel policies. Recruitment of the director and teaching staff remained with the central government, through IJS. According to the law, the inspectorate appointed directors of primary schools for a four-year term, while the ministry appointed the directors of secondary and vocational schools.[9] Typically, the director was a teacher, who was paid a supplement for undertaking limited managerial responsibilities, for which he or she had no specific training or professional accreditation. Only later, in 2004, was the school manager position institutionalized and the director released from his or her teaching duties.

The new law also introduced two important new elements. The first was to transfer to local governments the responsibility for financing school maintenance. Article 167 (2) clearly states that, "The repair and maintenance costs of physical and material facilities of pre-university education units are financed by local councils from specific state budget appropriations and from local budgets, as well as from their own resources." This certainly represents a serious step in education finance decentralization in Romania. Its actual scope and consequences, evident today in the form of substantial *fragmentation*, are analyzed next.

The second new element was the requirement that the allocation of funds to each school be based on a per-student amount. Article 169 (5) says, somewhat cryptically, that:

> The basis for the calculus of allocations to each education unit and institution represents the amount from the state budget that is decided per preschooler, schoolchild or student in respect of level and specifics of the educational process, as well as other indicators specific for education, especially those concerning the quality of education.

There is some lack of clarity here, namely it is not obvious who is obliged to determine the amount allocated from the *state budget per schoolchild*, and what the range of *other indicators* is. It is possible, indeed, to imagine an allocation procedure using the state-mandated basic amount, but incorporating a large system of additional indicators and weights (both positive and negative) so that the actual allocation will bear little resemblance to that basic amount. However, this more fundamental discussion is not really necessary here, as this norm of law 84/1995 remained unfulfilled until now, and no such *calculus of allocations* is used in practice. Moreover, the amendments to this law, adopted in August 2004, introduced a new scheme of education financing and made the provisions of Article 169 irrelevant (see the section on structural issues). That new scheme, as we argue below, also remained unimplemented.

Devolution of School Maintenance Costs

Maintenance costs include all the material expenditures of schools, such as heating, electricity, water, and garbage collection, and also the supplies used by schools for their operation. Maintenance also includes small repairs necessary for the running of the schools. Those costs are covered by local governments. Local governments do not receive from the central budget any specific grant for those expenditures, as they are considered the *own responsibilities* of local governments. Local governments have to use for that purpose non-earmarked revenues, mostly own revenues and shared taxes, that is, a proportion of national taxes retained at the local level. This is certainly a highly decentralized system.

The main component of those, the personal income tax (PIT) was shared in the following manner: 63 percent remains with the local government, while 37 percent accrues to the state budget.[10] Since the introduction of the flat-tax rate, the amount staying at the local level was increased to 82 percent. Those funds are further distributed as Table 1 illustrates.[11]

Table 1.
Distribution of Personal Income Tax at the Local Level

Beneficiary	Purpose	Old PIT Share (%)	2007 PIT Share (%)
County council	Own expenditure needs	10	13
County and local council	Rebalancing to equalize local budgets	17	22
Local council	Own expenditure needs	36	47

The distribution of the local share of the taxes is important, because it demonstrates several problems, such as the politicization and unpredictability in the financing system, as described below.

Firstly, about half of the PIT income of local councils is collected by the county and redistributed among the local budgets according to several rules.[12] The rebalancing is applied to help local councils deliver public services such as education, health, transport, and so on. This politicizes the budget process, in that one level of local government is involved in deciding on the budgets of other local governments (local councils) in the areas in which it does not have managerial responsibility (such as education). Additionally, it is worth noting that the county council does not have sufficient data to analyze the sectoral needs of the local councils and therefore has to work in close collaboration with the school inspector.[13] This implies that the deconcentrated MERY apparatus has some influence over the allocation of maintenance funds, but it is indirect and is not governed by a clear division of responsibilities.

Secondly, the other half of the PIT shares, retained at the local level, provide very different amounts depending on the wealth of the jurisdiction. Consequently, rich jurisdictions from the western part of the country have significantly more funds at their disposal and can spend much more on school operations than poorer municipalities in Moldova. The same applies to equalization through the rebalancing component of shared PIT. It has a rather limited impact, because it is localized. Indeed, there will be many relatively rich counties, which will have at their disposal quite significant funds for the rebalancing of budgets. At the same time, the poorer counties in Moldova, for instance, will also have their own much smaller equalization funds.

We note that Romania also has a *national* equalization system. This system allocates the funds again to the level of counties, where deconcetrated offices of the Ministry of Public Finances as well as county councils further distribute the funds, according to several rules.[14]

A proper equalization system must include the whole country and has no need of counties as intermediaries in distribution. Instead, it should be operated by the central administration using a simple equalization formula and must be applied uniformly and transparently to all local governments. It is clear that the neither the county level systems of rebalancing nor nationwide equalization system meet those criteria.

The uneven distribution of PIT shares, and of PIT-based equalization formula, is fully reflected in severe regional differences in per-student maintenance expenditures. At the level of counties, those expenditures for primary education range from RON 464 to RON 4,755, a more than tenfold difference (see the section of structural issues and the Appendix). Neither the inspectorates nor MERY monitor those differences, in part because they have not been assigned any administrative tools and responsibilities to do so. The responsibility for determining the maintenance and materials part of school budgets thus rests exclusively with the local governments, and they seem to

enjoy remarkable freedom in this area. For instance, in a complex of vocational schools, the own income generated by the school is quite considerable, because the school has turned an unused student dormitory into a type of low-cost hotel and is allowed to keep all the income generated in this way. Therefore, the local government decided not to assign any maintenance funds from its own budget to that school. Leaving aside the question of whether this is a rational decision,[15] we note that this is in sharp contrast with other schools, which for their maintenance funding depend completely on the local council budget. This also shows that there are no uniform financing standards that local governments need to follow.

Nevertheless, it is worth pointing out that in many schools there were clear signs of recent (within the last two years) investments by the local governments. Since no capital investment funds are allocated for education in the central budget, all those local improvements in school equipment must have been financed from local resources. Thus, the local councils must have analyzed their options and budgetary possibilities, and decided on their priorities in the sector. This means that even with very limited managerial responsibilities in the sector, local councils have already begun to behave as committed owners of their schools.

Salaries of Education Staff

The salaries portion of the school budget, in contrast, is strictly controlled by an elaborate system of employment norms. Indeed, every year all the pre-university schools submit to ISJ their enrollment plans. The enrollment plans include the numbers of students, classes, teaching positions, and other non-teaching staff (administration and technical), and should be verified by the school inspectorate concerning proper applications of the norms. The norms include:

- class sizes (10 to 20 for preschool groups; 10 to 25 for grade one; 10 to 30 for grade five; while classes in the intermediate grades will simply continue from the previous school year),
- teaching time for class (maximum 30 hours per week),
- teaching load for a teacher (18 hours per week),
- norms for non-teaching staff.

The school inspectorate aggregates enrollment plans of individual schools into a county enrollment plan sent to MERY. It is clear that it is no longer possible to verify whether the employment norms are applied correctly at this level of aggregation. Instead, the aggregated enrollment plans serve as an employment plan for the county, and its main purpose is budgetary planning. Finally, MERY constructs the national enrollment plan

through aggregation of county-level plans, and the national plan is approved through a government decision. In theory, this should provide a comprehensive system of checks and balances; in practice, however, we note a certain dilution of responsibilities. Indeed, while it seems clear that the main managerial authority rests with the school inspectorates, their decisions are not final and are in theory subject to verification and approval by higher authorities, up to the government itself. In particular, if MERY is unable to secure the national enrollment plan as follows from aggregation of county plans, necessary and non-transparent cuts have to be introduced at lower levels (managed of course by ISJ).

Once enrollment plans have been approved, they are used to determine the salaries portion of the education budget of the counties. Here again, the Ministry of Finance depends on the data provided by school inspectorates, namely the data required to establish the salaries of individual teachers (education levels, seniority, professional qualifications). The national budget determines specific expenditures needs of the counties on education salaries.

However, at present, Romania lacks any system of sectoral transfers[16] from the central budget to local governments, apart from investment grants. This makes it impossible to correctly account for the transfers for education salaries at the central level. The solution adopted by the Ministry of Finance is to use the VAT revenues of the central budget[17] to finance salaries. Initially, the so-called *sume defalcate din VAT* (retained or deducted amounts from VAT revenues) were defined as negative accounting entries under the VAT revenues of the state budget. Since 2004, they have been defined separately as expenditures of the central budget and are stated for each county as a part of the yearly budget laws. In the absence of well-defined sectoral grants for education, the system of retained amounts becomes a type of per-teacher grant to counties for school staff salaries.

Once the state budget is approved, the counties then determine the education budgets of all their local councils by allocating to them the received *sume defalcate*. This is more or less a mechanical exercise, since the allocation for education salaries was based on submissions of the counties (together with the School Inspectorates). Also, the local government merely transfers those funds to schools (and employees are paid in cash). Since neither the county nor the local councils have any influence on the payment amounts, their role in this part of the school budgets seems to be purely technical. We can say that the devolution of school staff salaries to local governments in Romania has a purely accounting component.

Consequently, while the maintenance portion of education finance has been excessively decentralized, without proper monitoring mechanisms, the salaries portion remains strictly centralized.

THE LEGISLATIVE FRAMEWORK OF 2004

In 2004, the government of Romania committed itself to decentralize the finances and management of the education system, under the conditionalities of a Programmatic Adjustment Loan (PAL) from the World Bank. It also adopted a new Strategy for the Reform of Public Administration, promising larger sectoral and fiscal decentralization. The Ministry of Public Administration introduced a separate Framework Law on Decentralization, which also made room for the future reallocation of sectoral responsibilities (such as education). The Ministry of Education, Research, and Youth adopted a new legislative framework intended to reform and simplify the education management and finances.[18] Unfortunately, those reform initiatives were not well coordinated.[19]

The legislation adopted by MERY in 2004 reflects the fragmentation in policy-making described above. There was no official strategic document drafted by MERY to target decentralization specifically. The reform document for pre-university education[20] mentions an objective that is related to decentralization: "the reform aims (…) the progressive decentralization of decisions and responsibilities in forecasting, allocating and using financing sources and the material base of the education units."[21] Nevertheless, as we discuss in some detail below, the new legislative framework remained inconsistent and did not resolve all the tensions apparent in the fragmented management and financing system. The new education decentralization strategy, approved by the government of Romania in December 2005, provides a much clearer vision of a future system. It states clear objectives like strengthening school autonomy and reducing the role of the ISJ. However, the objectives of that strategy have not been translated into laws.

First, we will discuss how the new legal framework defines managerial issues (the allocation of responsibilities to institutions) and what the proposals for the financing system are.

Institutional Arrangements

There are many accounts in the literature of the two basic options for devolving new responsibilities—to schools or to local governments.[22] The debate about the target of decentralization has been fierce in the region, given the strong and frequently opposing interests of the central and local administration, not to mention the schools themselves and other education professionals. Romania is no exception, with its strong labor union market and its emergence from a highly centralized pre-1990 education system.

The primary and secondary legislation, adopted in 2004, shows that the previous government decided upon a costly and ineffective combination of both options. On the one hand, the legislation seems to confirm the central role of the school itself and gives leverage to its bodies of management. An amendment to the Law of Education[23] provides that, "the school is run by the administration council. The director of the school is the

chairman of the administration council." This is a clarification from the old version of the law that nominated the director for running the school with the help of the teachers' and administrative council. Further on, the strengthening of the administrative council through further managerial responsibilities; the change in the role of the school director, from teacher to a manager held accountable through a managerial contract signed with the inspectorate;[24] and the introduction of school budgets with revenue and expenditure sides—all these imply the transformation of the school into a self-managing institution. This is very much in line with the decentralization of schools.

On the other hand, the same body of legislation sets the financing responsibilities with various levels of government. Article 28 of *Methodological Norms* clearly states that at the local level the local council establishes the quantum of funds allocated to each education unit, based on a long list of indicators, namely the:

> … number of pupils at each level of education, type and specialty, enrolled in the respective education units, the standard costs per gymnasium pupil in urban areas, correctional coefficients for each level of education, type, and specialty, in urban or rural areas,[25] the possible number of pupils to be enrolled in a classroom determined solely by demographic causes, share of pupils belonging to other nationalities enrolled in the education unit, and the volume of local councils' self-generated income and their quantum, that can be allocated to education.

This makes local councils ultimately responsible for defining the budgetary allocations of all the schools in its territory. Additionally, the system of national, county, and commune commissions for education finance are tasked with defining per-student costs at each level of the system for the schools in their jurisdiction. This is consistent with decentralization to local governments.

However, despite moving towards both school-based and local-government-based model of education decentralization, the new framework retains significant power with regard to the inspectorates. The present system of teacher nominations by the ISJ with no role for the school director is unchanged, except in a limited way in eight pilot counties. As a result, Law 354/2004 maintains the consultative and advisory role of the administration council and does not increase the autonomy of the school in the pedagogical process, for instance, by allowing some freedom in the use of teaching time.

The inspectorate continues to have significant power: they set up public education units such as kindergartens, primary schools, middle schools, vocational, and apprenticeship schools.[26] The director of the school signs his or her contract with the inspectorate, not with the local government, so the relationship between the school and the local community is considerably weakened. Thus, the director is less accountable to the community he or she serves, and more to the inspectorate, as the inspector evaluates his or her performance in managing the school. This is a complicated situation, given that,

according to the *Methodological Norms*, the inspector decides on the level of payment for the director based on some objective criteria (e.g., the number of students, the size of the school) and also on some that are less objective (such as performance evaluation run not by an independent body, but also by the inspectorate).[27]

Financing Arrangements

We will discuss the following education finance issues as regulated by the 2004 legislation:

- determination of financial flows for education (own income or education grant),
- fragmentation of the new financing system,
- the basic per-student amount, and
- the allocation procedures.

Determination of Financial Flows for Education

The legislative framework does not clearly resolve which education function or service is financed from own income or from an education grant. Article 167, paragraph 1 of the Education Law, as amended by Law 354/2004, states that pre-university schools are financed from "funds allocated through local budgets (…) from the state budget and other sources, according to the law." Later in the law the central funds source is specified: "financing is ensured (…) from the shares deducted from some incomes of the state budget and from other incomes of the local budgets."[28] The issue is, will those shares be defined as fixed percentages valid across the country, making this similar to own revenues financing, or will they be determined as amounts separately calculated for each municipality (based perhaps on standard costs), similar to a grant from the central budget?[29]

In the first case, education finance would be firmly based on own income,[30] in accordance with Article 167, paragraph 8. However, in this case, the system of standard costs elaborated in the *Methodological Norms* will remain relevant only for the setting of the budgets of individual schools. This would create an unclear situation, when the deducted shares may differ significantly from the sum of individual school budgets in a locality. For many rural jurisdictions this certainly will become an unfunded mandate, when their own revenues will be insufficient to cover the costs of school budgets determined through a formula.

In the second case, the standard costs would be used to calculate the required expenditures of schools and the resulting funds would be deducted from some revenue streams of the central budget. An open question then becomes how to account in this system for the financing of maintenance, presently based on the fixed shares of PIT.

The Fragmentation of the New Financing System

The financing mechanism, as defined in Article 167 of the Education Law amended by Law 354/2004, is a two-pillar system that includes global (proportional) financing and complementary financing. Global financing covers staff salaries, materials, services, and teacher in-training. Remaining expenditures, such as dormitories and cafeterias, student assessment, scholarships, student transportation, medical check-ups for employees, school contests, investments, and major repairs are part of complementary financing. Global financing will comprise over 95 percent of recurrent school budgets. It will be calculated through a formula, using the standard costs. Those funds are supposed to be "deducted from some incomes of state budget," mostly from VAT revenues. Funds for complementary financing will come from local budgets, and their level will reflect the possibilities of localities.

The new legislation decreases the fragmentation of the present financing system by including school maintenance in the global financing. Some issues remain, however.

One problem concerns auxiliary education expenditures, such as student transportation, dormitories, and cafeterias. Those expenditures, unlike investments and major repairs, are recurrent expenditures, cannot be postponed, and need to be financed in a stable, regular way, usually throughout the school year. The level of those expenditures should depend on the number of users, for instance, where there is a need to transport students or to locate them in dormitories due to low population density and the difficulties of maintaining a dense school network. If the level of this expenditure depends upon the availability of funds in the local budget, then access to school in remote, poor areas, especially in the mountains, may be threatened.

There is also a *free-rider* problem related to the use of own funds to finance dormitories. The users of dormitories are students coming from outside a given locality. When allocating their own revenues to fund the dormitories, the local council is, in fact, using local taxes to provide better education for children from another city or village. Local councils may be reluctant to financially support the education of outsiders. From their point of view, closing a dormitory would significantly reduce the cost of education in the city, without a negative effect on the people most important to the local council—that is, the voters.

Basic Per-student Amount

According to the *Methodological Norms*, the allocation formula should be based on a number of correction coefficients for the type and level of school, for urban and rural areas, etc., as well as on the basic per-student amount, namely the per-student cost of a gymnasium student in an urban area. The determination of that basic per-student cost may prove to be difficult politically and technically.

The difficulty lies in the need to reconcile two requirements: that the per-student cost reflects the actual minimum cost of providing education for one student, and that the total funds for education should not exceed the ability of the national budget to support education. Those requirements are in conflict and the resolution is far from easy.

The *Methodological Norms* builds the budget using a bottom-up approach.[31] The cost of providing education is calculated according to the required factors, of which the most important are teacher salaries. The main danger of this calculation is that the overall budgetary request from MERY to the Finance Ministry may turn out to be unrealistically large, which may cause political difficulties and controversies. Indeed, the calculations performed by the National Council for Financing of Pre-university Education (CNFIPS) are based on the legal norms governing the employment of teachers and non-teachers (including curriculum, class sizes, the national pay scale) and on other relevant norms (such as for heating). The calculations also use many institutional assumptions (class and school size, teacher education level) and lead to a definition of many standard costs for different types and locations of schools (over 20 such types). The standard costs resulting from those calculations are invariably higher than historical costs of specific types of schools.[32] This means that they cannot be used for the allocation process, as this would lead to the allocation of significantly higher funds than those available for education in the state budget. There is a risk that the whole financing system proposed by the *Methodological Norms* cannot be implemented, unless some new calculations produce much lower values for the standard costs.[33]

The Allocation Procedure

According to the *Methodological Norms,* the allocation procedure is performed in three steps: central to county budgets, county to local budgets, local budgets to schools. During all three steps a formula with some corrective coefficients will be employed.

The *Methodological Norms* are not clear about how this will work. Articles 28 (b) and (c) say that the allocation at the county and local levels will be accomplished using standard costs and the corrective coefficients to reflect local conditions, and that those coefficients will be "calculated and registered in the calculation methodology." This

seems to imply that those coefficients will be valid for the whole country. However, Article 33 says that county and local councils will approve the levels of per-student costs on their territory. This implies that different formulas will used, with possibly different basic per-student costs.

Officials of the Ministry of Education, Research, and Youth state that they plan to use a national formula applicable at all the three steps, with the same nationally defined coefficients, but with the right to alter the coefficients at the local level. This will mean that the ministry will take full responsibility for the funding level of each school, with the corresponding political burden (the role of the local governments will be reduced to the approval of the structure of the schools' budgets). The financing system is likely to become very rigid. With limited and somewhat unreliable information about the individual schools, the decisions made by the ministry may lead to serious problems for some schools. In conclusion, while it represents a significant departure from the traditional, arbitrary financing, this choice severely limits the influence of local governments in the sector. If this happens, the ministry may require some additional financing mechanisms, such as an education reserve fund, to deal with any serious discrepancies between the new rigid formula and the existing financing levels.

The allocation system is complicated even further because of the three-step procedure and the involvement of two levels of government: the central level and the local level. The central level (the ministry) defines the overall level of funding and the allocation principles, while the local level is responsible for the administration of individual school budgets. However, there is also responsibility at the medium level, the county, that is less clear and may lead to a significant politicization of the system. The principle that is usually applied is that of direct funding, by means of allocating the funds for the function directly to the administrative organ executing this function. Since the county has no direct managerial authority in the operations of individual schools (apart from special schools), the passage of the education funds through the county budget is both unnecessary and dangerous. It is unnecessary because the same formula at the national level can allocate the funds for special schools to the counties and the funds for regular schools to the communes. This is dangerous because it will increase room for covert negotiations and for intergovernmental disputes. From the education financing formula point of view, the removal of counties from the allocation procedure would contribute significantly to its transparency and simplicity.

The Pilot Programs

As a consequence of the new education management and finance framework, MERY decided to start two limited pilot programs. The first one started in 2004[34] in all school units of eight pilot counties to test newly-adopted regulations on management and

financing. The real effect of the project was to increase school autonomy in regard to the employment of teachers and the participation of the school community. The pilot program is continuing, although there are no immediate plans for national replication. The second program was designed to be implemented in the school year 2006–2007 and considered 50 selected school units in three different counties[35] selected from the initial eight pilot counties, with the main purpose of testing a per-student formula based on historical costs and transferred as a specific grant to local authorities. However, there was no official decision regarding the per-student formula to be tested by the schools, and therefore, no applicable mechanism to test, monitor, or assess. The second pilot ended inconclusively in December 2007.

The Proposed 2008 Law on Education and Teacher Statute

The new draft law on pre-university education continues to define decentralization as one of the basic principles in managing education. Moreover, it maintains the concept of a per-student *standard cost* that will be established yearly at the central level, and mandated through a government decision. The methodology of cost calculation differentiates between basic, complementary, and compensatory financing of education. Only the basic financing (which includes personnel expenses—like teacher training, textbooks, maintenance expenditures) is to be calculated in accordance to:

- the number of students in a given school;
- the previously established standard cost;
- the differentiation coefficients (relating to the education level, the student population density in the area, to specific disadvantages, and to the complexity of the qualifications that the school provides).

CNFIPS (National Council for Pre-university Education Financing) is to be responsible for the decision regarding the standard cost and the different allocation coefficients. This MERY institution was created in 2003, in order to collect data on education finance, to calculate the per-student and personnel costs at the national level, and to monitor and assess the standard cost implementation in the eight pilot counties. However, CNFIPS began to decrease its staff, and undertake fewer and fewer responsibilities and activities until it effectively collapsed, which explains why MERY no longer has current calculations of the standard costs or current centralized data regarding per-student expenditures. The only data connected to the efficiency of the system that MERY can use in its policy decisions is personnel spending (the Ministry of Finance can provide this data by centralizing budgetary executions from local councils). In addition, MERY does not receive complete budget reports from the schools, which

means that it cannot monitor the use of the funds in pre-university education, either by region, by level and type of education, or from year to year. The efficiency of the use of scarce resources is not controlled. Instead, MERY concentrates on controlling the specific education inputs in each school (class sizes, teaching provided to each class, individual teacher salaries).

Article 113 of the new law states that the amount considered to represent the basic financing will be allocated to the school through the local budgets, but some *Methodological Norms* are needed to clarify this point. In particular, it remains unclear if the retained amounts discussed earlier will still be used for this purpose.

With regard to complementary financing—scholarships, maintaining of dormitories and cafeterias, building renovations, investments, and different bonuses for teachers and students—the amounts needed will come from local budgets and from the central budget, in the case of national investment programs, and for covering some proportion of scholarship expenses. How this proportion is going to be established remains unclear.

Compensatory financing is to be ensured from the local and state budgets (a certain proportion, established yearly) for expenses such as teaching in a minority's language or financing special-needs education, based on an allocation formula: the number of students that will benefit from compensatory financing, the standard cost, and the differentiation coefficient for level of education, and for the program that benefits from compensatory financing.

The funds resulting from all three types of financing will be transferred to the local level based on a contract, signed by the school director and the main credit coordinator.

Overall, we may conclude that the new proposals unfortunately have failed thus far to introduce greater clarity and transparency to the funding of schools. The complicated system of basic, complementary, and compensatory funding is likely to remain unimplemented as the system defined in 2004.

STRUCTURAL ISSUES OF ROMANIAN EDUCATION FINANCE

In the present section we will discuss a number of structural issues, which are a consequence of the peculiar system of the financing of Romanian education. The underfinancing of Romanian education, the budgeting vacuum, and the external efficiency of the system are long-term problems that have been inherited from the previous governments of Romania and require similarly long-term, difficult solutions.

Budgeting Vacuum

Above we described the financing of school maintenance as fully decentralized and exhibiting dramatic disparities across counties, while salaries are fully controlled by MERY, although technically the responsibility of local councils.[36]

This very unusual approach[37] to decentralization has resulted in a sort of *budgeting vacuum* in the budget process: the ministry most interested in the level and manner of financing of schools is not fully involved in the budget process for any part of school budgeting. For school maintenance, towns and cities are fully responsible, and neither need nor request any involvement from MERY. For the salaries, the main responsible institution is Ministry of Public Finance, which does not need to consult either with MERY or the local governments, and introduces changes from year to year without prior discussion with MERY. Moreover, the funds flow through the budgets of local governments, but municipalities, towns, and localities have no influence at all on school employment, or on the setting of salaries, and therefore are similarly uninvolved in the budget process.

The budgeting vacuum is the single most important problem of the budgeting process of MERY and impacts not just budget issues but all aspects of managing and steering the Romanian education system. Indeed, the ministry cannot be politically responsible for the efficient use of resources devoted to education if its influence over the ways the funds are allocated and spent is so limited. This is especially important for the use of teacher resources. The employment of teachers is strictly controlled by the ISJ through applying national class-size norms and curriculum requirements. However, there is little incentive to save money by consolidating schools in the face of declining student numbers (and declining system efficiency). In fact, the consolidation of schools is always a painful process, with resistance from both the parents and teachers. The main argument for school consolidation is that the funds saved by a more efficient school network will provide improved education for the larger, consolidated schools. But, at present, if MERY goes through the difficult process of consolidation, the savings will not accrue to the sector and will disappear in the general budget because the retained amounts from VAT for salaries will simply become smaller. Similarly, MERY finds it difficult to plan and cost any major reforms of the sector, such as a lengthening of obligatory education or increased enrollment in general academic secondary schools. This is because the present budget process does not use data which can serve as the basis of projections under various reform scenarios. Moreover, no policymaking institution at the central level is responsible for taking into account the long-term financial and managerial effects of demographic processes, decisions about school networks, curriculum changes, and changing teacher numbers.

The most important negative consequence of the budgeting vacuum is that the budgeting process is seen as a pure accounting activity. Thus, for salaries, rather than considering various tradeoffs between school, class size, and teacher employment, the

process is based on checking how many school employees there are, according to the norms, and how large are their salaries. For textbooks, provided free-of-charge to all students of primary schools, the process is based on assessing the numbers of textbooks available and on how many are needed in the new school year. In general, the ministry sees itself as running the sector system through a system of norms and methodologies, rather than as allocating scarce resource to achieve specific policy objectives.

It also seems that, overall, the underfunding of education and an inadequate response to demographic decline, as analyzed below, are at least partially due to limited role of MERY in the financing of Romanian education.

The Underfinancing of Romanian Education

Romanian education has suffered long-term chronic underfinancing. The total education expenditures in Romania as percentage of GDP, the most common measure of the effort made by countries to finance their education, lagged significantly below that of other countries in the region. Table 2 provides this information for years 1989 to 2000.[38]

The OECD average in the same years oscillated above five percent of GDP. The table shows that Romania stands out in the region as the country devoting the least resources to education. This is especially worrying as Romania had a relatively more pronounced economic decline following the end of communism and was very late to recover economically. Indeed, total public expenditures in real terms in 2000 were 80.1 percent of their 1990 level. An Education Policy Note by the World Bank talks about *budgetary collapse in the education sector.*[39] However, the data provided by MERY, in its yearly state of the education report, shows an increase in the percentage of public spending for education (Table 3).

Table 2.
Education Expenditure in Central Europe as Percent of GDP (1989–2000)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	4.0	4.1	4.1	4.5	5.2	5.4	5.3	5.3	5.7	—	—	—	5.2
Bulgaria	—	5.0	5.1	6.1	5.7	4.8	4.0	3.2	4.0	3.8	4.3	4.3	—
Hungary	—	5.7	5.8	6.3	6.6	6.5	6.4	5.5	4.9	4.3	5.2	5.2	5.1
Poland	—	4.8	5.1	5.4	5.3	5.2	5.4	5.5	5.8	—	—	—	5.6
Romania	2.2	2.8	3.6	3.6	3.3	3.1	3.4	3.6	3.3	3.3	3.2	3.1	3.1
Slovak Republic	—	5.1	5.6	6.0	5.2	4.4	5.1	5.0	—	—	—	—	4.0

Table 3.
Percent of Public Spending for Education

2000	2001	2002	2003	2004	2005	2006
3.4	3.6	3.6	3.5	3.5	3.9	4.9

Source: *Report on the State of National Education System*, MERY 2006.

The consequences of this chronic underfunding are severe. Because salaries are the main component of education expenditures, we need to review teacher salaries, relatively low compared to teacher salaries in the region.

In Bucharest, the basic salary of an experienced teacher is not enough to cover basic expenses such as rent and utilities. Teachers rely on the income of other members of their families (parents or spouses) or engage in additional employment, most often in private tuition, which in some cases brings them more than the salary they receive from the school.[40] We note that this relative pauperization of Romanian teachers has an important impact on the teaching process and on school quality, not only on the lives of teachers. Teachers need to be able to participate in cultural activities, buy and read books, and use new technologies such as the internet. Teachers who need to supplement their school salary with additional income, for instance, from private tuition, have less time for professional development and for good preparation for their teaching duties.

As we have seen, underfunding of Romanian education has a chronic character indicative of the way Romanian society treats its schools and teachers. This is a difficult, open issue, but two such potential reasons are proposed here. First, in Romania there is a generally high opinion about the level of basic and secondary education, as witnessed in the success of Romanian students in international competitions (especially in mathematics and computer science). Second, there may not be a clear political champion for funds to be allocated for pre-university education in the state budget, as described in the previous subsection.

External Efficiency

The external efficiency of educational systems is measured by indicators such as student–teacher ratio (STR) and class sizes, and reflects the degree to which an education system efficiently uses the resources allocated to it. The main challenge to the efficiency of the education systems of transition countries comes from a dramatic demographic decline, which over a period of a few years led to decrease of student population by 30 to 40 percent. The adaptation of schools to such changes is not easy. Economic difficulties have made it very difficult to reduce the teacher workforce, both for political and social

reasons. Closures of schools in rural areas provoke passionate resistance. It is therefore not surprising that, with a few exceptions, the main efficiency indicator, namely STR, has worsened in the transition countries. On average, the student–teacher ratio in the region decreased by over nine percent, with the most pronounced decline occurring in Romania.[41] This decline is documented in the following table, which provides the numbers of students and teachers, and calculates the student–teacher ratio, for primary and gymnasium education in five selected school years.[42]

Table 4.
Student–teacher Ratio for Primary Schools and Gymnasiums

School Year	Students	Teachers	Student–teacher Ratio
2002–2003	3,900,489	257,051	15.17
2003–2004	3,854,708	251,135	15.34
2004–2005	3,753,275	255,004	14.71
2005–2006	3,644,367	249,491	14.60
2006–2007	3,560,075	246,735	14.42

We note that between 2003 and 2005, the number of students fell by three percent, but the number of teachers grew by two percent. Throughout this period, the student–teacher ration fell by five percent.

This is a serious loss of efficiency. Although those results may be partially due to an increased number of part-time teachers (unfortunately, INS does not report on full-time equivalent or FTE teachers), they nevertheless show that the ministry has not been pursuing an active policy to improve the efficiency of the sector, in the period of serious budget constraints.

According to a simulation model prepared by the World Bank,[43] assuming constant age-specific enrollment rates and with no changes in the number of teachers, the pre-university student–teacher ratio will fall to 12.58 by the school year 2013–2014.

Another approach to view the efficiency of education systems is by analyzing the class sizes. Indeed, each class must obtain the same amount of teaching, according to curricular forms, and therefore small classes are a source of inefficiency. Table 6 places Romania among its regional neighbors,[44] and shows how it lags behind in regards to class size.

Table 5.
Simulated Student–teacher Ratios, by Level of Education

Academic Year	Preschool	Basic Education	Upper Secondary	Higher Education
2004–2005	18.37	13.72	12.17	18.48
2005–2006	19.24	12.96	12.07	17.06
2006–2007	18.93	12.65	11.53	17.15
2007–2008	18.36	12.55	10.76	17.38
2008–2009	18.35	12.48	9.90	17.57
2009–2010	18.32	12.50	9.10	17.53
2010–2011	18.21	12.60	8.44	17.13
2011–2012	18.01	12.70	7.94	16.36
2012–2013	17.73	12.79	7.67	15.33
2013–2014	17.37	12.77	7.60	14.17

Source: Public Expenditure and Institutional Review (PEIR) Simulation Model, World Bank, 2006, in Romania Education Policy Note, World Bank 2007.

Table 6.
Class Size in Central Europe

	Primary	Lower Secondary
Czech Republic	20.8	23.3
Hungary	20.5	21.5
Poland	20.8	24.6
Slovak Republic	20.2	23.0
Romania	19.1	21.5

The decreasing efficiency of Romanian education over the last decade shows that MERY finds it difficult to prepare a coherent strategy to adjust the system to the demographic decline. It seems likely that one source of this difficulty is the excessive reliance on norms and methodologies, rather than on direct incentive systems, such as per-student financing, to improve efficient use of resource.

Equity Issues

The problems of equity in education finance are difficult to address, because equitable education requires higher per-student allocation for some students, such as those coming from disadvantaged households or social backgrounds, or in rural areas with smaller class sizes. We approach equity issues by looking at county-level (*judete*) disparities in per-student spending, and correlating it with the class size.[45] Moreover, we review regional disparities of per-class personnel spending (mainly teacher salaries).

Due to the large size of the counties (on average 67,000 students, see Appendix, Table A1.1), the average class size across Romanian counties is not excessively varied (much higher variation appears between individual schools). This variation is summarized in Table 7.

Table 7.
Class Size among Schools

	Minimum	Average	Maximum	Percent Difference
Primary	15.81	19.06	25.04	158
Gymnasium	17.42	21.48	25.00	144
Lyceum	22.54	26.61	28.01	124
Vocational	20.40	24.62	30.26	148

The greatest variation is exhibited by primary education, most certainly due to small rural schools. The class size of lyceums is most closely controlled, probably because those schools are more similar to each other.

There is much more variation in per-student spending on personnel (salaries of both teachers and non-teaching staff). The summary of those variations is detailed in the following table (for data for all the counties, see Appendix, Table A1.3). Data for vocational schools exhibit some errors, and as a minimum we take the fifth lowest per-student spending.

Table 8.
Spending per Student among Schools (RON)

	Minimum	Average	Maximum	Percent Difference
Primary	4,080	6,981	9,600	235
Gymnasium	5,847	8,732	12,009	205
Lyceum	5,941	10,733	17,605	296
Vocational	4,325	7,618	18,689	432

We can note a much more significant variation compared to class size variation, especially for the lyceums. With similar class sizes, similar programmatic load (although Romania has three types of lyceum, the theoretical, technological and vocational), and uniform teacher salaries, the counties with highest per-student personnel costs spend almost three times as much as those spending the least. This is surprising and may signify preferential treatment of some special secondary schools. It is worth noting that the highest per-student spending is not seen in Bucharest, but in the counties Satu Mare and Vilcea. This is not due to small class sizes in those three counties, because the class sizes there are close to the national average (in Vilcea it is even above this average).

Nevertheless, the per-student expenditures for personnel are, in general, aligned with class sizes. For instance, for the primary schools, if three outliers are removed from analysis (Satu Mare which is spending less than expected due to class size, and Bucharest and Sălaj which are spending more), the class size and per-student non-personnel spending have the correlation coefficient $R = -0.49$, which is negative (as expected, of course), and quite high in absolute value.

Of special interest is personnel spending per class. This reflects the teaching effort of the schools (the number of lessons would be a better measure, but this information is unavailable). Since the teaching is governed by national curricula, we may expect that personnel spending per class reflects differences in teacher salaries and is not very different among schools, and even less so between counties. The data is provided in the Appendix, Table A1.4, and exhibits an unexpectedly high variation of per-class spending. In particular, it seems that the minimum values are not correct, and may reflect the weakness of the data collection system.

When we turn to the non-personnel spending per student, that is, expenditures managed by the local governments, we note an even higher variation, as summarized in the following table (full data in Appendix, Table A1.5). For vocational schools, we again took the fifth lowest spending as the minimum.

Table 9.
Non-personnel Spending per Student among Schools (RON)

	Minimum	Average	Maximum	Percent Diifference
Primary	464	1,627	4,755	1,025
Gymnasium	672	2,135	6,428	957
Lyceum	1,205	2,744	4,695	390
Vocational	533	1,697	4,116	772

The discrepancies between the lowest and highest per-student non-personnel spending are remarkable. They are almost certainly dictated mainly by the level of own revenues of the jurisdictions. Moreover, those discrepancies at the level of the individual schools are certain to be more pronounced. We also note that there are counties with low or high per-student, non-personnel spending for all the levels of education. The highest spender is of course Bucharest (for primary and gymnasium it is highest, for the other two it is close to the highest). The low spenders are Ilfov, Satu Mare, and Vaslui counties. This is quite remarkable, since Satu Mare is at the same time a county with high per-student personnel spending.

If we review the correlation between the class sizes and non-personnel, per-student expenditures, we obtain the coefficient $R = 0.21$, not only small, but, most surprisingly, positive (in counties with larger classes, non-personnel expenditures per student are higher!).

We can only formulate the hypothesis that the transfer of the responsibility for the non-salary portion of the school budgets to local governments, and at the same time the absence of monitoring of those expenditures by the ministry, led to serious equity problems in school maintenance.

CONCLUSIONS

As we have indicated in a number of places in the present report, the new Romanian government seems to be determined to take the necessary but difficult steps and bring the long, drawn-out education reform to completion. This is especially true of decentralization. Education decentralization is a policy objective that will structure the future functioning of the sector and will influence the financing mechanisms and the delivery of education. The government already adopted, in December 2005, an education decentralization strategy, formulating not only objectives and stages but also the inherent risks and risk-minimizing measures.

Nevertheless, the challenges facing the education reformers in Romania go far beyond decentralization problems, and in the present final section we briefly formulate some recommendations for further action.

As is evident from the discussion in the first sections of this chapter, the Ministry of Education, Research, and Youth should accept the need to deal with the inconsistencies of the present, inherited legislation. The changes proposed in the draft education legislation of 2008 are insufficient to introduce clarity, transparency, and stability in education finance. Only a consistent, clear legislation supports a proper decentralization process. The region has seen examples of compromised decentralization efforts because of improper policy, as occurred in Poland in 1997, when the selected 40 large cities returned the secondary schools to the Polish Education Ministry, for which they had earlier taken responsibility.[46]

The ministry should also review the Framework Law on Decentralization elaborated by the Ministry of Interior and Administrative Reform, as well as plans for fiscal decentralization of the Finance Ministry. The Framework Law on Decentralization will define how decentralization will proceed in other sectors, and MERY should try to achieve some measure of harmony. Fiscal decentralization will define the available financial mechanisms, such as proper categorical and block grants, which will be used to allocate the education funds to local governments. Close cooperation with other ministries is therefore necessary.

The ministry should address the problem of the chronic underfunding of Romanian education, without fuelling inflation pressures. The teacher salaries should be increased together with the teacher workload, to bring the Romanian education system closer to European standards.

MERY must define the balance between empowering the schools and empowering the municipalities.[47] While those two dimensions of decentralization are in many respects complementary, on a number of key questions they may clash (e.g., the financing of schools, and the opening and closing of schools). Since the schools are now subordinated to higher-level institutions, and much effort is necessary not only to allocate them greater autonomy but also to increase their capacities. It seems that, for some time to come, local governments in Romania should retain a large measure of control of schools, especially of school budgets. The ministry should review and decide who will control, among others, the pedagogical process, the employment levels, the selection and evaluation of school directors, the selection and evaluation of teachers and of non-teaching staff, the adoption of specific profiles by the schools, school development plans, linkage to the labor market, and psychological services rendered to the schools. In general, school autonomy dictates that the school itself should have most responsibility in those areas, but the skills and capacities required for those functions may not be there yet.

Conditioned on those decisions, the ministry must define a stable and transparent system of financing. The regional experience (as well as Romanian legislation) tells us that this should be some form of per-student formula. We do not believe that the standard cost calculations, as defined in the current legislation, may serve as the basis for such a system. Although many different solutions are possible, it is important to remember that the financing system will become the sphere of discussion and compromise in the debates on the development of the sector, held between the ministry, the local governments, the trade unions, and other education stakeholders (including in particular professional associations of teachers and school directors). Therefore, the financing system should be sufficiently simple, and its basic parameters (numerical weights, buffers) should have a clear strategic role in education.

The ministry must also reconcile the per-student allocation formula with the nationally mandated pay scale of teachers. This is the source of severe tensions in many countries. One of the problems is that the national pay scale places some expenditure

obligations on local governments, which the per-student formula may be unable to satisfy, if the employment levels, due to some specific conditions, are much higher than average. The national pay scale also limits the freedom of local governments in changing the structure of the costs of their schools. On the other hand, the national pay scale is correctly seen by the teachers as the basic defence against the perceived arbitrariness of local governments.

Finally, the ministry should introduce mechanisms to objectively measure school performance and to assess the impact of education reforms on student outcomes. This is necessary if the ministry wants to improve the unsatisfactory results of Romanian students in internationally comparable tests such as TIMMS and PISA, as noted earlier.

SOURCES CITED

Berryman, S., A. Gove, D. Sapatoru, and A. Tirca (2006) "Evaluation of the World Bank Assistance to Basic Education. Case Study for Romania." World Bank.

Caraman, S., ed. (2003) "The Status of Fiscal Decentralization in Romania." Report for the National Union of County Councils of Romania, Bucharest.

Dogaru, I. (2002) "Formula de finantare a invantamantului preuniversitar din Romania." Bucharest: National Council for Financing of Pre-university Education (CNFIPS).

Fiszbein, A., ed. (2002) "Decentralizing Education in Transition Societies, Case Studies from Central and Eastern Europe." World Bank.

Halasz, G.(2002) "Romania Education Study: Report on Education Finance and Management." Bucharest: World Bank.

Herczyński, J. (2005) "Getting Ready for Take-Off? Current Issues of Education Decentralization in Romania." Bucharest: CNFIPS.

Herczyński, J. (2006) "Report on the Quality of the Budgeting Process in MER." Bucharest.

Ionita, S. (2003) "Halfway There: Assessing Intergovernmental Fiscal Equalization in Romania." SAR Working Papers 25.

Institutul National de Statistica (2004) *Anuarul Statistic de Romaniei–2003,* Bucharest (Available online: http://www.insse.ro).

Institutul National de Statistica (2007) *Anuarul Statistic al Romaniei*–2007, Bucharest.

Levitas, T. and J. Herczyński (2002) "Decentralization, Local Governments and Education Reform in Post-communist Poland." In: K. Davey (ed.) "Balancing National and Local Responsibilities." Budapest: LGI/OSI.

Ministry of Education, Research, and Youth (2001) *The Romanian Education System: National Report*. Bucharest.

Ministry of Education, Research, and Youth (2007) *The Romanian Education System: National Report*. Bucharest.

OECD (2005) Education at a Glance. OECD Indicators 2005. Paris: OECD.

Velea, S. and P. Botnariuc (2002) *Education Reform in Romania During the Last 12 Years*, Working paper for CEU Education Policy Course, Hungary.

Voicu, Begu L. (1999) "An Analysis of the Structure, Costs and Efficiency of Romania's Pre-university Education System." Bucharest: World Bank.

World Bank (2001) Country Assistance Strategy. Romania.

World Bank (2002) Education Policy Note. Romania.

World Bank (2007) Municipal Finance Policy Note, Romania.

LEGISLATION AND GOVERNMENT OFFICIAL DOCUMENTS

Law 349/2004, which amends the Teacher Status Law 128/1997, passed by the Romanian Parliament on July 14, 2004.

Law 354/2004, which amends the Education Law 84/1995, passed by the Romanian Parliament on July 15, 2004.

Methodological Norms for Financing and Administration of Pre-university Education Units (Methodological Norms), approved by Government Decision in November 2004.

Norma metodologica din 07/06/2001 Publicat in Monitorul Oficial din 19/06/2001, pentru finantarea invatamantului preuniversitar de stat.

Note no 10671/08.09.2000, Reforma in invatamantul rural (aspecte specifice); Precizari ale Ministrului Educatiei Nationale, Andrei Marga.

Annual Budget Law of 2000.

Ministerul Educatiei si Cercetarii, Strategia dezvoltarii invatamintului preuniversitar in perioada 2001–2004, 2002.

NOTES

[1] The authors were fortunate in having good research support from Adina Simandan, formerly of MERY and now of Ministry of Interior and Reform of Administration, who helped to update this report and wrote the sections on the current proposals of legislative changes.

[2] This difficulty in the timeline of the reforms of the Romanian education points in itself to the turbulent nature of the process.

[3] The Education Reform Project financed textbooks and supplementary materials, equipment, computer hardware and software, technical assistance, external and local training, preparation of studies, and non-salary operating costs.

[4] Phare supported vocational education reform.

5 Through the Annual Budget Law of 2000.

6 The present report does not take into account the current wave of reforms, initiated in 2008, aimed at changing managerial practices in Romanian education.

7 This monthly allowance, called *alocatii si alte ajutoare pentru copii*, is allocated through schools to all children in Romania attending schools irrespective of their social status (see Herczyński 2006). The current value of the allowance is RON 40 (around EUR 9).

8 The council included the school director, his deputy, chief accountant, and representatives of teachers (elected by the teacher council), of parents, of the local government unit, and also of students (for secondary and postsecondary schools). The administration board could also include representatives of the local business community.

9 In theory, for both primary and secondary schools there was a competitive process where credentials and professional experience are requested. In practice, however, director appointment was very often a result of the political bargaining among local politicians.

10 Based on discussions with the Ministry of Finance. A review of local government finance is provided in S. Caraman (ed.), *The Status of Fiscal Decentralization in Romania*, 2003.

11 Public Finance Law 273/2006.

12 The lump sum is distributed among counties on the basis of land area (30 percent) and fiscal capacity (70 percent). The latter is determined by calculating a "fiscal gap" for each county as the difference between the per-capita PIT tax revenues of the county and the average for all counties, multiplied by the population of the county. Fiscal gaps are then aggregated for the country as a whole. Each county's share of the aggregate fiscal gap determines its share (of this portion) of the lump sum. For a more detailed discussion, please see: *Municipal Finance Policy Note*, World Bank, 2007.

13 Based on interviews with ISJ and county councils.

14 Criteria used by the national system are part of permanent legislation, but a portion of the amount used in the equalization process is decided on an annual basis, in the budget laws. A very focused discussion of both systems is laid out in the *Municipal Finance Policy Note*, World Bank, 2007.

15 This assessment would have to include a comparison of all the maintenance budgets of the schools in the area and a determination as to whether the degree to which the needs of different schools are fulfilled is more or less similar. If the maintenance budget of that specific school is markedly higher or markedly lower than the maintenance budgets of nearby schools, and moreover if that difference is not part of a conscious policy of the local government recognizing different needs of individual schools, we may argue that the arrangement reached is not justifiable.

16 Those sectoral grants are based on certain measures of need, specific to the sector (for education, the number of students is commonly used), and are either categorical (conditional) or block (unconditional) grants. The law must also define the budgetary procedures and reporting requirements for the grants. Both PIT shares and existing equalization systems are non-sectoral grants.

17 VAT revenues were chosen for simplicity and because this revenue stream is sufficiently robust to support such negative accounting. Nevertheless, there is no budgetary link (beyond accounting) between VAT revenues and the education allocation, contrary to what many education stakeholders in Romania believe.

18 Law 349/2004, which amends Law 128/1997 on teacher status, passed by the Romanian Parliament on July 14, 2004; Law 354/2004, which amends the Education Law 84/1995, passed by the Romanian Parliament on July 15, 2004; and the Methodological Norms for Financing and Administration of Pre-university Education Units (Methodological Norms), approved by the Government Decision in November 2004.

19 Even more surprisingly, they were not harmonized with Ministry of Finance plans for fiscal decentralization.

20 "Strategia dezvoltarii invatamintului preuniversitar in perioada 2001–2004." Document of the Ministry of Education, 2002. Available online: http://www.ro.edu.

21 Paragraph 22.

22 See Halasz 2002 and Herczyński 2005 for a discussion in the context of Romanian education.

23 Article 13 of Law 354/2004.

24 See Article 21 of the Law 128/1997 regarding the teacher statute, as amended by Law 349/2004.

25 It is worth noting that Article 20 allows the range of acceptable corrective coefficient to be rather large. Besides factors such as rural/urban location, level of education and profile of the school, corrective coefficients may include the socioeconomic conditions of the school population, school performance, and specific technical conditions of each school.

26 Education Law, Article 142, paragraph d.

27 Methodological norms, Article 13, paragraph 2.

28 Law 354, Article 167, paragraph 3.

29 And to the current system of retained amounts from VAT, except that those are calculated on a per-teacher basis.

30 Here, we use the classification of shared taxes as own income of jurisdictions, even if the tax base, rates, and exemptions are beyond the control of local governments. This classification is common in transition countries, but is rejected by the OECD, because it blurs the distinction between shared taxes and the undisputed own income of local governments, such as property taxes.

31 There is also a top-down approach in building the formula, by which the ministry defines the coefficients to be used in the allocation process and then simulates the effects of various values of the coefficients. This calculation is also open to some criticism, namely that the basic per-student amount obtained in this way is insufficient. On the other hand, this approach guarantees the compliance with the budgetary process at the central level and removes the negotiated nature of the per-student amount.

[32] See Dogaru 2002, Annex to *Chapter 2*. Recent versions of the standard costs were typically 30 percent to 40 percent higher than actual costs of providing education in schools (based on interviews with CNFIPS).

[33] Generating lower standard costs does not seem likely. For instance, the CNFIPS calculation for the standard cost for rural primary school assumes a school size of 500, while in general rural school are much smaller and therefore have higher costs per student.

[34] Government Decision No. 1942/2004 by which eight pilot counties were nominated (Brăila, Cluj, Dolj, Harghita, Iaşi, Neamţ, Satu Mare and Sibiu).

[35] *Ordin privind organizarea şi derularea fazei-pilot "Managementul administrativ şi financiar al şcolii într-un mediu descentralizat,"* signed between MERY and MIRA (Ministry of Interior and Administrative Reform).

[36] The discussion in the present section draws on J. Herczyński 2006.

[37] In decentralized education systems, like in the United Kingdom or in Poland, the funds flow from the center to lower levels (to schools in the United Kingdom, to local governments in Poland) according to a formula designed by the Ministry of Education. In other countries (Belgium), the funds for salaries are sent from the ministry directly to school staff, while the school director retains considerable autonomy in how she or he runs the school. In contrast, Romania keeps strong managerial control of school activities, but has decentralized the flow of funds.

[38] Sources: Halasz 2002, Berryman *et al*. 2006.

[39] World Bank 2002.

[40] Based on interviews with school directors and teachers.

[41] See Halasz 2002.

[42] Data from INS, Bucharest 2007.

[43] *Education Policy Note* 2007.

[44] For Romania data from Appendix, Table A1.1, for other countries OECD 2005.

[45] Class size is the key driver of per-student costs.

[46] The conflict was mainly over the financing of those schools, see Levitas and Herczyński 2002.

[47] See Halasz 2002 and Herczyński 2005 for in-depth discussion in the context of Romanian education.

APPENDIX

Remarks on Data Presented in Tables

The data used in the following tables below comes from CNFIPS (with the exception of Table A1.1) and refer to the year 2003 for expenditures, and the 2002–2003 school year for enrollment. All financial data in the appendix are per student, and are in thousand RON. The data are collected from schools and aggregated at the county level. This is at present the only source of data on both enrollment and expenditures by county and by education level, and gives important insight into the regional patterns of education spending in Romania. A review of the following tables is provided in the section of this chapter on structural issues.

Secondary schools in Romania are divided into *liceul teoretic* (general academic), *liceul tehnologic,* and *liceul vocational* (general academic schools with professional profiles), and *scoale arte si meseri* (vocational schools). In the tables below (with the exception of Table A1.1), we treat all types of *liceul* as one level of education.

Three difficulties with CNFIPS data need to be pointed out. One is related to the vocational schools, as it seems certain that spending for those schools is underreported for many counties. It is not possible that in a *judet*, on average, the yearly per-student personnel spending is RON 279,000, or yearly per-student maintenance spending RON 7,000. The second problem concerns all school levels, and is related to maintenance expenditures. Since the data is collected from schools, and maintenance costs are covered by local councils, the schools often do not know exactly how much money was spent on heating, electricity, and similar utilities. Finally, the personnel spending per class (Table A1.4) exhibits an unexpected variation and may indicate an underreporting of salaries in some counties. The third problem is connected to the lack of centralized financial data and class-size data, as a consequence to what is effectively a temporary closure of CNFIPS.

Table A1.1.
Students by County and by Education Level

	Primary	Gymnasium	Special Ed	High School	Vocational	Professional	Total
Alba	15,448	15,658	516	13,992	4,478	567	50,659
Argeş	26,843	28,508	217	25,291	7,338	1,196	89,393
Arad	19,486	19,089	534	16,606	4,293	384	60,392
Bucureşti	56,035	57,862	2,387	87,322	18,271	4,546	226,423
Bacău	34,348	33,955	393	23,307	8,903	889	101,795
Bihor	26,782	26,107	847	26,128	5,637	1,402	86,903
Bistriţa-Năsăud	15,035	15,040	423	11,110	4,543	131	46,282
Brăila	13,881	14,639	214	11,388	4,291	562	44,975
Botoşani	23,461	22,514	364	13,690	6,400	207	66,636
Braşov	22,089	21,789	397	21,060	6,880	1,007	73,222
Buzău	20,355	20,767	403	15,554	5,409	991	63,479
Cluj	23,572	24,841	1,112	24,080	7,659	1,773	83,037
Călăraşi	14,888	14,167	13	8,952	4,061	136	42,217
Caraş-Severin	13,460	13,594	458	11,818	4,224	225	43,779
Constanţa	30,300	28,786	457	30,743	8,540	1,084	99,910
Covasna	10,395	9,021	198	7,702	2,948	277	30,541
Dâmboviţa	23,985	24,414	231	17,202	5,833	577	72,242
Dolj	29,500	3,056	229	24,932	7,017	1,725	66,459
Gorj	17,849	19,459	103	18,760	4,767	795	61,733
Galaţi	27,349	26,822	522	21,190	7,412	826	84,121
Giurgiu	13,251	12,839	96	6,042	1,920	183	34,331
Hunedoara	18,760	20,518	634	19,676	6,040	876	66,504
Harghita	14,673	13,693	134	13,293	3,844	812	46,449
Ilfov	12,668	11,489	223	7,003	1,612	117	33,112
Ialomiţa	13,607	13,062	87	9,739	3,887	356	40,738
Iaşi	41,123	38,652	865	27,929	12,097	2,406	123,072
Mehedinţi	12,360	13,178	113	12,191	3,386	596	41,824

	Primary	Gymnasium	Special Ed	High School	Vocational	Professional	Total
Maramureş	22,935	23,416	550	19,154	7,183	754	73,992
Mureş	26,325	23,813	328	18,587	6,208	2,321	77,582
Neamţ	24,875	25,574	355	19,198	6,804	861	77,667
Olt	20,720	21,419	129	15,962	5,312	1,015	64,557
Prahova	32,002	33,039	417	28,704	9,793	1,503	105,458
Sibiu	18,498	17,580	631	14,782	5,877	844	58,212
Sălaj	11,139	11,091	82	9,520	2,842	167	34,841
Satu Mare	16,750	16,972	218	12,882	5,652	493	52,967
Suceava	36,307	36,307	875	25,404	9,070	895	108,858
Tulcea	10,246	10,435	70	7,608	3,175	427	31,961
Timiş	25,950	27,169	1,339	27,004	7,460	1,770	90,692
Teleorman	16,614	17,158	164	12,375	4,003	478	50,792
Vâlcea	17,077	17,877	162	16,601	4,523	529	56,769
Vrancea	16,450	16,289	209	11,326	3,787	763	48,824
Vaslui	24,749	22,721	380	15,118	7,004	231	70,203
Total	**912,140**	**884,379**	**18,079**	**780,925**	**250,383**	**37,697**	

Source: National Institute of Statistics 2008.

Table A1.2
Class Size by County and by Education Level

	Primary		Gymnasium		Lyceum		Vocational	
		Percent		Percent		Percent		Percent
Alba	16.72	87.76	20.12	93.68	27.13	101.95	24.15	98.10
Argeş	18.07	94.83	20.38	94.88	27.41	103.02	23.27	94.54
Arad	19.23	100.90	21.58	100.46	26.87	101.00	23.80	96.68
Bucureşti	22.73	119.27	24.69	114.97	27.79	104.45	23.78	96.59
Bacău	19.53	102.47	22.40	104.26	26.59	99.93	25.62	104.08
Bihor	17.84	93.64	20.08	93.49	27.39	102.95	25.67	104.28
Bistriţa-Năsăud	17.58	92.27	19.71	91.76	26.96	101.31	25.24	102.53
Brăila	19.14	100.42	21.46	99.89	26.26	98.69	21.04	85.45
Botoşani	18.44	96.74	20.43	95.10	26.14	98.24	26.61	108.11
Braşov	18.87	98.99	21.16	98.51	26.57	99.85	21.38	86.86
Buzău	17.63	92.51	20.48	95.33	26.62	100.05	24.45	99.31
Cluj	18.06	94.76	20.88	97.19	26.54	99.75	22.86	92.87
Călăraşi	20.07	105.31	23.25	108.22	24.86	93.44	26.51	107.67
Caraş-Severin	18.57	97.43	20.28	94.40	27.67	103.98	25.18	102.30
Constanţa	21.40	112.29	21.75	101.27	26.60	99.95	24.24	98.48
Covasna	16.01	84.01	17.97	83.66	22.54	84.70	22.76	92.45
Dâmboviţa	19.25	100.99	21.58	100.49	26.75	100.52	26.69	108.40
Dolj	19.41	101.86	21.21	98.76	25.91	97.37	25.01	101.60
Gorj	18.19	95.44	21.33	99.29	27.28	102.52	24.46	99.34
Galaţi	21.76	114.19	22.78	106.04	27.16	102.08	25.17	102.23
Giurgiu	20.10	105.45	22.38	104.20	27.46	103.20	23.74	96.44
Hunedoara	19.25	101.04	23.04	107.27	26.52	99.68	23.89	97.04
Harghita	15.81	82.96	19.13	89.05	22.68	85.25	23.94	97.25
Ilfov	19.57	102.69	22.88	106.54	26.68	100.27	20.40	82.85
Ialomiţa	21.46	112.59	24.03	111.89	26.54	99.75	25.81	104.83
Iaşi	19.51	102.40	23.16	107.82	26.50	99.57	26.00	105.60

	Primary		Gymnasium		Lyceum		Vocational	
		Percent		Percent		Percent		Percent
Mehedinți	18.17	95.32	21.10	98.25	26.42	99.28	24.52	99.60
Maramureş	17.78	93.30	17.42	81.11	25.77	96.86	24.80	100.72
Mureş	15.99	83.93	18.66	86.87	25.22	94.77	23.95	97.30
Neamț	19.19	100.68	24.13	112.33	26.70	100.35	25.17	102.25
Olt	18.75	98.38	20.54	95.65	26.90	101.08	24.93	101.26
Prahova	20.83	109.28	22.61	105.29	27.71	104.13	27.11	110.13
Sibiu	19.49	102.28	20.91	97.33	26.12	98.17	24.87	101.04
Sălaj	25.04	131.38	25.00	116.40	28.01	105.27	30.26	122.91
Satu Mare	17.58	92.24	20.43	95.13	24.70	92.82	23.48	95.36
Suceava	18.94	99.36	21.75	101.25	25.73	96.69	25.42	103.25
Tulcea	18.60	97.62	21.16	98.52	26.91	101.15	24.25	98.51
Timiş	19.67	103.22	21.74	101.23	26.80	100.73	23.95	97.31
Teleorman	19.31	101.31	21.00	97.76	25.47	95.71	24.64	100.11
Vâlcea	17.71	92.92	20.68	96.26	25.69	96.54	24.14	98.06
Vrancea	18.24	95.71	20.60	95.90	26.04	97.86	23.58	95.78
Vaslui	18.36	96.33	21.65	100.80	27.67	103.99	25.94	105.38
Total	**19.06**	**100.00**	**21.48**	**100.00**	**26.61**	**100.00**	**24.62**	**100.00**

Table A1.3
Personnel Spending per Student by County and by Education Level

	Primary		Gymnasium		Lyceum		Vocational	
		Percent		Percent		Percent		Percent
Alba	8,037	115.12	10,552	120.84	10,237	95.37	9,222	121.06
Argeş	5,924	84.86	12,009	137.53	6,802	63.38	7,377	96.84
Arad	5,743	82.26	9,361	107.20	8,812	82.10	8,806	115.60
Bucureşti	7,526	107.81	8,146	93.29	8,749	81.51	9,437	123.89
Bacău	8,163	116.93	8,163	93.49	8,162	76.05	8,183	107.42
Bihor	8,052	115.34	8,244	94.41	11,805	109.99	5,960	78.24
Bistriţa-Năsăud	9,600	137.51	9,603	109.97	11,243	104.75	4,035	52.97
Brăila	7,270	104.14	9,310	106.61	11,182	104.18	10,361	136.02
Botoşani	6,875	98.48	8,948	102.47	9,312	86.76	6,458	84.77
Braşov	8,392	120.21	8,337	95.47	14,874	138.58	2,187	28.70
Buzău	6,415	91.89	10,585	121.22	10,915	101.70	5,744	75.41
Cluj	8,113	116.21	10,359	118.63	9,281	86.47	8,663	113.73
Călăraşi	6,088	87.21	6,631	75.94	15,027	140.00	1,028	13.49
Caraş-Severin	5,940	85.09	8,349	95.61	11,141	103.80	7,500	98.45
Constanţa	5,002	71.65	8,862	101.49	9,394	87.52	10,156	133.33
Covasna	9,026	129.29	10,725	122.82	12,612	117.50	10,017	131.50
Dâmboviţa	7,859	112.58	8,162	93.47	9,462	88.15	8,473	111.23
Dolj	5,156	73.85	6,779	77.64	11,499	107.14	18,689	245.34
Gorj	6,655	95.33	8,344	95.55	9,214	85.85	7,868	103.28
Galaţi	6,320	90.52	8,264	94.64	8,809	82.07	7,608	99.87
Giurgiu	5,278	75.60	8,137	93.18	8,670	80.77	7,759	101.85
Hunedoara	8,103	116.06	9,979	114.27	9,201	85.72	8,242	108.20
Harghita	8,187	117.27	8,997	103.04	13,199	122.97	7,623	100.07
Ilfov	4,671	66.91	5,847	66.96	5,941	55.35	5,973	78.41
Ialomiţa	5,321	76.22	8,299	95.04	9,531	88.80	4,525	59.40
Iaşi	6,356	91.05	7,476	85.62	13,133	122.36	6,410	84.15

	Primary		Gymnasium		Lyceum		Vocational	
		Percent		Percent		Percent		Percent
Mehedinți	7,110	101.85	9,871	113.04	11,363	105.86	7,221	94.80
Maramureş	6,364	91.16	7,871	90.14	13,997	130.41	4,323	56.75
Mureş	7,568	108.41	10,499	120.23	11,499	107.13	8,276	108.64
Neamț	6,770	96.98	7,848	89.87	14,370	133.88	279	3.67
Olt	5,404	77.40	11,207	128.34	10,087	93.98	6,914	90.76
Prahova	7,903	113.21	7,903	90.51	7,903	73.63	7,903	103.75
Sibiu	8,721	124.92	8,308	95.14	11,100	103.41	9,068	119.04
Sălaj	8,647	123.86	8,077	92.50	11,759	109.56	13,177	172.98
Satu Mare	4,080	58.44	11,270	129.06	16,664	155.25	1,389	18.23
Suceava	7,524	107.77	7,744	88.68	17,605	164.02	13,930	182.86
Tulcea	7,855	112.52	8,535	97.74	12,088	112.62	8,816	115.73
Timiş	6,867	98.37	8,191	93.80	10,667	99.38	9,194	120.70
Teleorman	5,891	84.38	9,674	110.78	12,103	112.76	1,884	24.74
Vâlcea	8,133	116.49	7,955	91.10	16,967	158.07	6,837	89.75
Vrancea	7,819	112.01	9,254	105.97	9,248	86.16	8,691	114.09
Vaslui	6,570	94.12	8,702	99.65	8,342	77.72	5,112	67.11
Total	**6,981**	**100.00**	**8,732**	**100.00**	**10,733**	**100.00**	**7,618**	**100.00**

Table A1.4
Personnel Spending per Class by County and by Education Level

	Primary		Gymnasium		Lyceum		Vocational	
		Percent		Percent		Percent		Percent
Alba	134.4	101.03	212.3	113.21	277.7	97.23	222.7	118.76
Argeş	107.1	80.47	244.8	130.49	186.5	65.29	171.7	91.56
Arad	110.4	83.00	202.0	107.70	236.8	82.92	209.6	111.76
Bucureşti	171.1	128.59	201.2	107.26	243.2	85.13	224.4	119.67
Bacău	159.4	119.82	182.8	97.47	217.0	76.00	209.7	111.80
Bihor	143.7	108.01	165.5	88.26	323.4	113.23	153.0	81.59
Bistriţa-Năsăud	168.8	126.88	189.3	100.91	303.1	106.12	101.8	54.31
Brăila	139.1	104.58	199.8	106.50	293.7	102.82	218.0	116.22
Botoşani	126.7	95.27	182.8	97.45	243.4	85.23	171.9	91.65
Braşov	158.3	119.00	176.4	94.05	395.2	138.37	46.8	24.93
Buzău	113.1	85.02	216.8	115.56	290.6	101.75	140.4	74.89
Cluj	146.5	110.12	216.3	115.29	246.3	86.25	198.1	105.62
Călăraşi	122.2	91.84	154.1	82.18	373.6	130.81	27.2	14.53
Caraş-Severin	110.3	82.90	169.3	90.26	308.3	107.93	188.9	100.72
Constanţa	107.0	80.45	192.8	102.78	249.9	87.48	246.2	131.30
Covasna	144.5	108.61	192.7	102.75	284.2	99.52	228.0	121.58
Dâmboviţa	151.3	113.69	176.2	93.93	253.1	88.61	226.1	120.57
Dolj	100.1	75.23	143.8	76.67	297.9	104.32	467.5	249.28
Gorj	121.1	90.99	178.0	94.87	251.4	88.01	192.4	102.60
Galaţi	137.5	103.37	188.2	100.35	239.3	83.78	191.5	102.10
Giurgiu	106.1	79.72	182.1	97.10	238.1	83.36	184.2	98.22
Hunedoara	156.0	117.27	229.9	122.59	244.0	85.45	196.9	105.00
Harghita	129.4	97.29	172.1	91.75	299.4	104.83	182.5	97.32
Ilfov	91.4	68.71	133.8	71.34	158.5	55.50	121.8	64.96
Ialomiţa	114.2	85.82	199.5	106.34	253.0	88.58	116.8	62.27
Iaşi	124.0	93.23	173.2	92.32	348.0	121.83	166.6	88.86

	Primary		Gymnasium		Lyceum		Vocational	
		Percent		Percent		Percent		Percent
Mehedinți	129.2	97.08	208.3	111.06	300.2	105.10	177.1	94.42
Maramureş	113.1	85.05	137.1	73.11	360.8	126.31	107.2	57.16
Mureş	121.1	90.99	195.9	104.44	290.0	101.53	198.2	105.71
Neamț	129.9	97.64	189.3	100.95	383.7	134.35	7.0	3.75
Olt	101.3	76.15	230.2	122.75	271.3	94.99	172.3	91.90
Prahova	164.6	123.72	178.7	95.29	219.0	76.67	214.3	114.25
Sibiu	170.0	127.77	173.7	92.60	289.9	101.52	225.6	120.28
Sălaj	216.5	162.73	201.9	107.67	329.4	115.34	398.7	212.62
Satu Mare	71.7	53.91	230.3	122.78	411.6	144.11	32.6	17.39
Suceava	142.5	107.08	168.4	89.78	452.9	158.59	354.1	188.82
Tulcea	146.1	109.84	180.6	96.29	325.3	113.91	213.8	114.01
Timiş	135.1	101.54	178.1	94.95	285.9	100.10	220.2	117.45
Teleorman	113.7	85.48	203.1	108.30	308.2	107.92	46.4	24.76
Vâlcea	144.0	108.25	164.5	87.70	435.9	152.61	165.0	88.01
Vrancea	142.6	107.21	190.6	101.63	240.8	84.32	204.9	109.27
Vaslui	120.6	90.67	188.4	100.45	230.8	80.82	132.6	70.71
Total	**133.0**	**100.00**	**187.6**	**100.00**	**285.6**	**100.00**	**187.5**	**100.00**

Table A1.5
Non-personnel Spending per Student by County and by Education Level

	Primary		Gymnasium		Lyceum		Vocational	
		Percent		Percent		Percent		Percent
Alba	878	53.99	1,407	65.34	1,752	63.86	1,225	72.18
Argeş	1,366	83.98	2,241	104.08	1,633	59.50	962	56.69
Arad	990	60.89	1,791	83.20	2,001	72.95	2,031	119.72
Bucureşti	4,755	292.29	6,428	298.60	4,173	152.09	3,534	208.30
Bacău	2,252	138.46	2,252	104.63	2,252	82.08	2,258	133.09
Bihor	893	54.88	914	42.46	1,205	43.92	533	31.39
Bistriţa-Năsăud	1,500	92.23	1,501	69.72	3,247	118.34	986	58.11
Brăila	1,270	78.08	1,708	79.34	4,695	171.11	1,968	115.96
Botoşani	574	35.26	1,040	48.32	1,611	58.73	793	46.71
Braşov	2,181	134.07	2,167	100.65	3,913	142.62	568	33.49
Buzău	1,496	91.96	1,619	75.21	1,935	70.52	1,047	61.72
Cluj	1,828	112.37	2,390	111.04	3,715	135.38	4,116	242.58
Călăraşi	1,042	64.07	1,380	64.10	3,845	140.15	618	36.44
Caraş-Severin	614	37.75	1,087	50.49	2,281	83.12	1,219	71.87
Constanţa	1,990	122.32	2,194	101.91	2,258	82.28	1,920	113.14
Covasna	2,161	132.82	1,785	82.90	2,582	94.11	2,624	154.66
Dâmboviţa	1,490	91.61	1,626	75.52	2,529	92.19	1,967	115.95
Dolj	541	33.26	730	33.89	1,313	47.86	1,093	64.39
Gorj	1,214	74.66	1,804	83.81	3,042	110.86	1,524	89.84
Galaţi	1,180	72.54	1,666	77.40	2,501	91.16	1,870	110.22
Giurgiu	944	58.04	2,082	96.71	2,138	77.93	379	22.34
Hunedoara	1,988	122.19	2,514	116.78	2,482	90.45	2,005	118.18
Harghita	1,125	69.17	1,330	61.80	4,501	164.04	1,404	82.77
Ilfov	464	28.53	672	31.20	1,449	52.81	2,230	131.43
Ialomiţa	1,127	69.29	1,222	56.75	4,158	151.56	1,044	61.50
Iaşi	1,579	97.07	1,739	80.78	3,116	113.56	1,525	89.89

	Primary		Gymnasium		Lyceum		Vocational	
		Percent		Percent		Percent		Percent
Mehedinți	761	46.76	1,176	54.61	2,661	96.98	1,298	76.50
Maramureş	769	47.29	832	38.67	2,989	108.93	647	38.12
Mureş	1,373	84.39	3,364	156.28	1,881	68.55	1,170	68.94
Neamț	2,040	125.40	2,175	101.04	2,589	94.38	309	18.20
Olt	2,563	157.53	1,083	50.29	2,406	87.71	656	38.64
Prahova	1,863	114.55	1,863	86.56	1,955	71.25	1,957	115.36
Sibiu	1,456	89.53	1,387	64.45	2,071	75.49	1,967	115.94
Sălaj	1,227	75.45	1,291	59.99	3,618	131.87	1,788	105.37
Satu Mare	769	47.29	3,795	176.31	2,571	93.72	7	0.41
Suceava	2,360	145.10	2,605	121.02	2,443	89.04	2,931	172.76
Tulcea	1,362	83.74	1,823	84.69	3,302	120.35	2,906	171.25
Timiş	1,337	82.20	1,444	67.07	2,618	95.42	2,767	163.08
Teleorman	633	38.89	2,738	127.17	1,867	68.03	256	15.06
Vâlcea	1,416	87.07	1,631	75.79	3,233	117.82	986	58.12
Vrancea	2,343	144.04	2,607	121.09	3,765	137.23	2,266	133.53
Vaslui	599	36.84	934	43.37	1,819	66.29	974	57.38
Total	**1,627**	**100.00**	**2,153**	**100.00**	**2,744**	**100.00**	**1,697**	**100.00**

Index

A

accommodation 114–115, 118–119, 130, 146, 151, 157

accountability 7, 9, 19, 45, 52, 69, 71, 82, 175, 188

administrators 15, 25, 36, 51, 116

Albania viii–ix, 3–4, 7, 12–14, 16–18, *20*, 21–23, 26–27, 30–31, 34–41, 43–46, *47–48*

allocation formula viii, 10, 45, 65, 82, 107, 133–135, 137–138, 140–142, 147–148, 191, 194, 203

appointment 4–5, 61, 105, 143, *206*

apprenticeship 7, 83, 188

assessment 11, 29, 39, *47*, 53, 56, 68,–69, 73–74, 86, 135, 151, 157, 161, 168, 177, 190, 206

asset 47, 84, 130, 146, 171–172

B

baccalaureate 151, 155–156

bank account 9, 19, 52, 71

benefit 13, 23, 30, 38, 85, 152, 194

birth rate 94, 106, 122

block grant 10, 43, *47*, 106–107, 125, 130–131, 134–140, 142–143, *145*, 147–148, 160, 203, 206

bonus 36, 39, 86 ,89, 194

Brazil 14

building 4–5, 19, 44, 62, 72, 84, 91, 156, 194

Bureau for the Development of Education 106, 115, 145, *147*

C

capacity 9, 29–30, 44, 72, 81, 83–85, 93–94, 98, 134–135, 144, 153, 163, 166, 181, 203, 206

categorical grant 10, 16, 29, 34, 36, 47, 106–107, 130–131, 133, 135–144, 148, 152, 158, 160, 164, 203

Center for Control and Quality Assessment 69

Central Budget Act 61

centralization 3, 6, 24, 76, 108–109, 157, 181

centralize(d) 3, 6–7, 10, 14–15, 29, 31, 34–35, 39, 43, 89, 93, 97, 105, 108–110, 133, 165, 175–178, 181, 186–187, 193, 209

children 19, 27, 51, 57, 60, 64, 73–74, 82–83, 89, 92–93, 95, 109, 138, 163–164, 176, 179, 182–183, 190, 206

city (ies) 13–14, 23, 25, 29, 39–40, 45, 81, 83, 100, 106, 118, 125–128, 133, 141, 167–168, 170, 175–176, 179, 190, 195, 202

civil society 3

class size(s) 5–6, 11, 40–42, 48, 61, 68, 82, 87, 105–106, 110–111, 115, 125–127, 179, 181, 185, 191, 194–195, 197–202, 208–209, 212

close 5, 18, 26, 51–52, 60, 62, 70, 73, 82, 132, 151–152

closure 6, 18, 29, 51, 60, 86–87, 97, 108, 163, 166, 168, 198, 209

coefficient 5, 31, 85, 99–100, 106, 116–117, 140–143, 147, 164–165, 167, 188, 191–194, 201–202, 207

co-financing 55, 82, 86, , 91, 93, *99–100*, 120, 153, 160

committee 5, 62, 167

compensation 8–9, 11, 15, 35–36, 65, 67, 89, 94, 113

competency (ies) 3, 5–6, 9, 29, 96, 98, 130–131, 157, 165–166

competition 5, 13, 28, 38–40, 52, 54, 61, 69, 71–73, 91–92, 94, 96, 158, 169, 197

competitive grants 34

compulsory 27, 51, 55–56, 62, 70, 83, 153, 178

constraint (s) 15, 18, 36, 40, 45, 51, 75, 109, 160, 198

contract 7, 13, 62, 76, 81, 85, 89, 118, 170, 176, 188, 194

corruption 13

cost 9, 11, 15, 18, 30, 34, 36–37, 40, 64, 66, 74–75, 81–82, 85, 89–91, 96, 110–112, 127–129, 161, 163–164, 171–172, 176–177, 185, 190–191, 193–194, 195, 203, *208*

costing standard 8, 16, 53, 65, 67–68, 76

council

- school council 4–5, 14, *20*, 51, 61–62, 70, 74–75, 81, 85
- administration council 7, 182, 187–188
- municipal or local council 61, 105, 134, *167*, 170, 176, 182–186, 188, 190, 192–193, 195, 209
- country or national council 176, 178, 183–184, 191–193, *204, 206*

criteria 15–16, 24–25, 34, 37, 44, 46, 60, 64–65, 68, 71, 73–74, 84, 86, 91, 93, 106, 114–116, 118, 125, 138, *147*, 176, 184, 189, *206*

curriculum vii–viii, 10–11, 20, 38, 40, *47*, 51–52, 54, 60–62, 69, 73, 82, 94–95, 97, 138, *147*, 151, 159, 168, 176, 178–179, 181, 191, 195, 198, 201

Czech Republic 17–18, 196, 199

D

decentralization vii–ix, 3–8, 10–11, 14, 16, 28, 30, 35, 38–41, 44–45, 51–53, 66, 71, 74–77, 81–84, 87, 90, 93–94, 96–*100*, 103, 105–109, 119, 125, 129–137, 139–140, 143–*148*, 151–152, 161, 175–178, 180, 182, 187–188, 193, 195, 202–*204, 206–207*

decentralize(d) v, 3–4, 9, 15–16, 24, 29, 39, 45, 76, 83–84, 89–90, 93–94, 96–97, *100*, 109, 131, 134, 136–137, 143–144, *146*, 181, 183, 186–187, 195, *208*

decision-making viii, 46, 63, 71–72, 74, 77, 152, 166, 182

deconcentrated 4–6, 14, 28–29, 37, 60, 62, 157–158, *167*, 175, 178, 181, 184

delegated budget system (DBS) viii, 3, 8, 14, 16, 19, 52, 65, 68–69, 71–75

demographic 16, 18, 26, 29, 43–45, 60, 68, 94–95, 105, 110, 122, 129, 133, 151, 179, 188, 195–197, 199

depopulation 60

devolution 6, 30, 108, 178, 183, 186

discretion 10, 17, 19, 29, 35, 39, 45, 47, 51–52, 160, 166, 176

dismissing 4–6, 29, 35–36, 61, 106, 108, 131

distribution 10, 15–17, 40–41, 44, 46, 52–53, 56, 58, 63, 67–68, 91, 97, 106, 117, 133, 159, 181, 183–184, *206*

district 4, 14, 24, 28, 35, 43, *47*, 151, 157, 161–163, *167–168*, 170

District Offices of Education (DoE) 28

Division 8, 66, 89–90. 98, 106, 113, 115, 130–131, 136, 157, 171–172, 181, 184,

dormitory (ies) 11, 19, 72, 91, 118–119, 130, 139, 185, 190, 194

dropout 41, 122

dropout 55, 73, 122–125

E

earmarked grant / funds / transfer 24, 32, 43–44, 47, 67

Education and Teacher Training Agency 81, 83, 86, 92

effectiveness vii, 3, 12, 14, 23, 35, 51, 64, 73–74

efficiency vii, 3, 12, 17–19, 25, 35, 41, 43, *46,* 53–54, 64, 72–75, 82, 91, 95–96, 109–110, 120, 122, 125, 133, 152, 161, 164, 177, 193–195, 197–199, *205*

electricity 7, 19, 37, 66, 118, 120, *147,* 165, 171–172, 183, 209

enrollment 18, 23, 26, 28, 31, 35, 38–39, 41–44, 48, 52, 57, 59–60, 62, 70, 81, 84, 91, 120, 122, 134, *147*, 151, 154, 156, 160, 179, 181, 185–186, 188, 195, 198, 209

equalization fund 9–10, 81–82, 84, 90–91, 93, 96, 98, 106, 176, *184*

Equalization Fund 9, 81–82, 84, 90–91, 93, 96, 98, 106, 176, 184 ,

equity 12, 15–16, 25, 40, 46, 52, 69, 75, 95–96, 106, 109–110, 125, 132, 177, 179, 200, 202

ethnicity 40, 106

EU 7, 52, 54, 56, 63,

EU 10 69–70, *76*, 178, 180,

EU 15 70

EU 25 12, 63, 70

excellence ix, 73, 138

extrabudgetary 9, 105, 113, 164, 168–170

F

firing 5, 14, 61, 63

fixed costs 107, 141

formula 8, 10–11, 15–16, 19–*20*, 24, 29, 44–46, 64–65, 72, 74, 82, 91, 98, 107, 130–135, 137–138, 140–143, 145, *147–148*, 158, 184, 189–194, 203–104, *207–208*

founder 5, 83–85, 94, 96–98, 132, 135

founding rights 5, 55, 68, 81, 83–84, 97, 132, *147*

France 3, 70

function(s) 3–4, 6, 8–10, 14, 23–25, 28–30, 35, 37, 39, 41, 44–45, *47*, 61–62, 68, 83–84, 87, 94, 98, *100*, 105, 131–132, 136–137, *147*, 152, 164–165, 181, 189, 192, 203

funding authority 5, 8, 10, 14, 52, 61–63, 65–67, 75, 78, 152, 156, 160, 168–169

G

GDP 12–13, 23, 30, 44, *47*, 48, 52, 63–64, 78, 81, 85–88, 105, 108, 112, 152, 158–159, 172, 177, 180, 196

geographic 16, 24, 40–41, 45–46, 68

governance v, vii, 29, 83, 109, 129, 161, 164, 177, 181

grade 8, 16, 19, 42–43, 52, 56, 59, 65, 67–68, 73–74, 90, 95, 106, 115–116, 120–124, 142, *147–148*, 153–155, 178, 185

grammar school 83

grant 8, 10–11, 16, 29, 32, 34, 36–37, 43, 47, 55, 66, 81, 94, 105–107, 109, 113–114, 119, 125, 130–131, 133–145, *147–148*, 152, 158, 160, 164, 169, 176, 183, 186, 189, 193, 203, *206*

growth ix, 4, 27, 34, 37–38, 61, 81, 86, 96, 153, 158

gymnasium 13, 37, 111, 140–143, 146, 154–156, 188, 191, 198, 200–202, 210–219

H

heating 7, 11, 19, 37, 66, 89, 91, 100, 114, 116, 118, 120, 127–129, 132–133, *147*, 171–172, 183, 191, 209

hegemony 4

hiring 4–6, 8, 14, 29, 35–36, 46, 61–63, 152, 158

historical budgeting 10–11

horizontal 15–16

hours 5, 39, 52, 61, 93, 165, 185

human resources 3, 24, 55, 62, 82, 94, 97

Hungary 17, 45, 196, 199

I

incentive 8, 13, 19, 35–37, 39–40, 45, 64, 69, 72–75, 120, 175, 179, 195, 199

income tax 8–9, 67, 81–82, 84, 91, 106, 130, 158, 183

index (indices) 96

inspectorate 4–5, 7, 20, 51–52, 60–63, 144–145, 175–176, 181–182, 184–186, 188–189

Inspectorul Scholar Judetean (ISJ) (County School Inspectorate) 178, 181, 185–188, 195, *206*

internet 7, 197

in-training 11, 190

investment ix, 8–9, 11, 24–25, 30, 32–35, 39, 44–*47*, 52, 66–67, 78, 90, 93, 98, 105, 114–115, 119, 129, 131, 133, 143, *147*, 163, 166, 171–172, 185–186, 190, 194

K

kindergarten 7, 64–65, 76, 93, 163, 176, 188

kolkhoz 151, 156

L

Law on Local Government Finance (LLGF) 6, 106, 129–132, 136–137, 145, *148*

lease 62–63

legislation 4, 7, 11, 55, 75–76, 85, 139, 151–153, 157, 165–166, 169, 176, 187–190, 202–203, *205–206*

locality (ies) 34, 164–165, 177, 189–190, 195

lump sum 16, 107, 140–141, 143, *147, 206*

M

Macedonia v, viii–ix, 3, 6, 9, 12, 16–*20*, 46–*47*, 103, 105–111, 117, 120, 122, 124–130, 132–137, 139, 143, *145–148*

macroeconomic indicator 96

maintenance 3–10, 13–14, 16, 24, 28–29, 32–33, 36–37, 39–40, 44–45, *47*, 51–52, 55, 60–62, 64–66, 68, 72, 76, 78, 90–91, 98, 106, 113, 116, 118, 120, 127–129, 131–137, 139–141, 143, *148*, 151–152, 156, 158, 160, 163–166, 168, 176, 178, 182–186, 190, 193, 195, 202, *206*, 209

management v, vi–ix, 3–4, 6, 8–9, 11, 14, 16, 18–19, 25, 29, 37, 39, 40, 43, 45–46, 51–52, 54–55, 59, 63, 66, 68, 70–71, 76, 82, 86, 96–98, 109, 131, 134, 136, 144–145, *148*, 152, 158, 163, 175–176, 178–182, 187, 192, *204, 208*

mandate 7, 28, 61–62, 65, 132, 157, 176, 183, 189, 193, 203

migration 13, 18, 41–43, *47*, 60, 122–123, 155, 161

minister ix, 5, 7, 60–62, 85–86, 91, 108, 119, *205*

Ministry of Education (MoE) viii–ix, 6–8, 14, 24, 28, 34, 37, *45–46*, 51, 54, 59–62, 64, 69, 77, 84, 132, 144, 152, 156–158, 167–168, *207–208*

Ministry of Education and Science (MoES) viii–ix, 5, 8, 59–62, 65, 67, 76, 105, 107–109, 114, 117–120, 130–140, 143–145, *146–148*

Ministry of Education, Research, and Youth (MERY) 175, 177–178, 187, 192–197, 199, 202–203, *204–205*

Ministry of Finance (MoF) ix, 8–11, 28, 34, 39, *46*, 64, 66–67, *76*, 81, 84, 86, 88, 91, 97, 99, 109, 114, 117, 132, 136, 139, 144–145, *148*, 160, 164, 166, 186, 193, *206–207*

Ministry of Health 91

Ministry of Interior (MoI) 28, 203, *205, 208*

Ministry of Science, Education, and Sport vii, ix, 81, 83, 85–86, 89–98, *100*

money 8–9, 41, 52, 55, 67, 75, 94, 96–98, *100*, 109, 114, 118, 160, 164, 169–170, 195, 209

N

National Association of Municipalities in the Republic of Bulgaria viii, 61, *76*

National Council for Financing Pre–university Education 176, 191, 193, *204, 208–209*

National Pedagogic Center 69

need(s) 9, 13–17, *19*, 23–25, 28, 34, 37–41, 44–45, 51, 54, 66–69, 72–73, 81–82, 84–87, 89, 91, 93–94, 97, 118, 130–131, 135, 139, 142–143, 159, 164–165, 167, 183–184, 186, 194, 206

New Zealand 3

nongovernmental organization (NGO) 54, 83, 86

non-earmarked revenues 183

non-teacher 11, 136, 176, 191

normative unqualified employee (UNR) 106, 111, 116–118

norms 10–11, 13, 16, 42, 75, 82, 84, 106, 109, 111, 114–116, 118, 120, 129, 134, *147*, 158, 160, 164–165, 167, 175–176, 181, 185, 188–189, 1911, 194–196, 199, *205, 207*

O

official (s) v, 24, 39, 51, 74, 106, 108, 192

open 37, 69, 97, 122, 134, 180, 190, 197, *207*

opening 6, 60, 96–97, 108, 157, 164, 168, 176, 203

optimization 17, 144

oversight 52, 60, 62

own revenues 8, 10, 14–15, 19, 24, 29, 39, 53, 62, 65–67, 72, 76, 94, 105, 109, 111, 130–131, *147–148*, 152, 159, 165, 176, 183, 189–190, 202

P

parent 4, 10, 15, *20*, 40, 51, 54–55, 59, 61, 69–70, 73–74, 82, 85, 92, 95, 105, 109, 132, 147, 160, 163, 169, 195, 197, *206*

payment 7, 13, 60, 66, 105, 109, 157, 160, 165, 171–172, 186, 189

pedagogy 28, 69

performance 4, 6, 19, 25, 29, 39, 52, 61, 66, 68–69, 72–73, 75, 117, 130, 144, 152–153, 158, 165, 188–189, 204, *207*

personal income tax 8, 67, 106, 130, 158, 183

pilot county (ies) 7, 11, 175–176, 188, 192–193, *208*

pilot municipality (ies) 4, 61, 70

pilot program 14, 29, 51, 53, 181, 192–193

pilot project 4, 11, 175, 179

Poland v, viii, 17, 45, 103, 173, 196, 199, 202, *204, 208*

population 4, 10, 18, 26, 37, 41, 43, 45, 70, 78, 91, 94, 97, 107, 110, 122, 129, 133, 140–142, *147*, 153, 155, 160–161, 164, *167*, 169, 175, 179, 190, 193, 197, *206–207*

power (s) 4–7, 9, 43, 46, 53, 60–63, 67, 71–72, 74–76, 81, 98, 105–108, 110, 131, 143, 157, 166, 175–176, 182, 188, 203

pre-primary 23. 27. 30–33. 38. 42. 70. 83

preschool 23, 27, 58, 60, *77*, 82–83, 87–88, 92–93, *99–100*, 151, 153–154, 156–157, 159–160, 168, 175, 182, 185, 199

pre-secondary 56–58

pre-university 23, 28, 30–32, 42, *46*, 154, 176, 182, 185, 187, 189, 191, 193–194, 197, *204–205*, *207*

primary school 6–7, 16, 18, 36, 41–42, 56, 81, 83–87, 89, 92–96, 99–100, 105, 110–111, 116–118, 125–127, 139–140, 142, *146–148*, 154, 175, 179, 182, 188, 196, 198, 201, 208

private sector 3, 158

property 9, 14, 29, 37, 40, 44, 52, 62–63, 65, 71, 105, 107, 130, 132, 134, 137, 144, 153, *207*

proposal 4, 6, 24, 34, 46, 61, 85, 98, 157, 160, 167–168, 176, 187, 194, *205*

provision 8, 24, 29, 38, 40, 44, 66, 71, 85, 87, 130, 132, 138, 144, *147*, 177, 183

public servant 13, 85

pupil 8–9, 18, 52, 65, 81–82, 84–85, 91, 97, 122, 154, 188

Q

qualification ix, *47*, 60, 106, 132, 151, 186, 193

quality v, vii–viii, 3, 12–13, 18, 24, 29, 36–40, 44–45, 52–56, 63, 68–70, 73–75, 83, 93–96, 98, 118, *147*, 151, 153, 155, 157, *167*, 177, 179–182, 197, *204*

quasi-voucher 8, 16, 52, 65, 67–68, 71

R

raion 6, 10, 151–152, 157–160, 166, *167*, 169

reallocate 10, 67

reallocation 46, 187

recommendation 5, 45, 62, 74–75, *147*, 180, 202

recruitment 14, 63, 182

reform v, vii, ix, 3–4, 7–8, 25, 45, 52–53, 68–69, 71, 74–75, 81, *99, 101*, 145, 151–154, 161, 164, 166–168, 173, 175–181, 187, 195, 202–204, *205–206, 208*

refugees 18, 94

region v, 8, 18, 25, 28–29, 36, 40–42, 45, 94, 97, 161, *167*, 177, 179, 187, 194, 196–198, 202

regional v, viii, 4–5, 8, 16, *20*, 28–29, 34, 37 ,44, *47*, 51–52, 60–63, 81, 83, 91, 123, 144, *148*, 151, 164–165, 175, 180–181, 184, 198, 200, 203, 209

Regional Education Inspectorate 5, 62

Regional Directorate of Education (RDE) 8, 28–29, 34, 37

Regional Inspectorate 4–5, *20*, 51–52, 60–63

regulation 5–6, 10–11, 28, 61, 64–65, 68, 87, *99–100*, 144, *147*, 158, 169, 192

remuneration 8, 15, 52, 66–67, 78

repairs 6–7, 11, 34, 36–37, 66, 76, 106, 131, *147*, 160, 163, 166, 171–172, 182–183, 190

resource (s) 3, 9, 12, 16–17, 19, 24, 30, 36, 40–44, 47, 52–53, 55, 62, 66–68, 71–72, 74–76, 82, 84–87, 90–91, 94–98, 105, 113, 119, 144, 154, 163–164, 166, 170, 177, 179, 182, 185, 194–197, 195

responsibility 3, 5–6, 8–10, 13–15, *20*, 23–25, 28–30, 36–40, 45, 52–53, 55, 60, 63, 66, 68, 71, 74, 76, 81, 83, 94, 96, 98, *99, 101*, 105–106, 108–109, 118, 129–137, 143–145, 151–152, 156–158, 161, 163, 165, *167*, 176–177, 182–188, 192–193, 195, *202–204*

results 3–4, 7–11, 14, 18–19, 23, 26, 29, 31, 35, 39, 41, 44–45, 52–53, 55, 68–69, 71, 73–76, 81, 93, 108, 137, 154, 156–157, 160–161, 163, 165, 175, 178, 181, 188, 198, 204, *206*

retention 14, 181

revenue ix, 7–10, 13–15, 19, 24, 29, 32, 36, 39–40, 43–44, 46, 52–53, 62, 65–67, 71–73, 76, 81, 84, 90, 93–94, 105, 108–109, 111, 114, 130–131, 141, *147*, 148, 152, 157–159, 165–167, 169–170, 176, 183, 186, 188–190, 202, *206–207*

rights 5, 8–9, 19, 28–29, 37, 40, 52, 55, 68, 71, 73, 81, 83–84, 86, 95–97, 132, *147*, 153, 166, 168, 176, 192

Roma 93

rules 31, 34–36, 38, 46–*47*, 52, 62, 64, 66–67, 85, 144, *167*, 169–170, 184

rural 7, 10, 13, 15–16, 18, *20*, 36–37, 40–44, 46, 51, 60, 72–74, 106–107, 110, 120, 125–128, 133, 135, 138, 141–142, 151–152, 155, 157–158, 161, 164–165, 175–177, 179, 188–189, 191, 198, 200, *205, 207–208*

S

salary (ies) 4–13, 15, 18, 24–25, 29, 32, 35–36, 39–40, 46–48, 52, 61–62, 66, 81, 84–86, 89, 94, 96–98, 105–106, 109–110, 114–118, 120, 131–132, 135–137, 146, *147–148*, 157, 160, 164–166, 171–172, 175–176, 178, 180–181, 185–186, 190–191, 194–197, 200–203, *205, 208–209*

scholarship (s) 11, 36, 52, 66, 78, 119, *147*, 176, 190, 194

school boards 6, 29, 105–106, 108, 116, 131–132, 134–135, 145, 163

school bus 60

school director 4–7, 14, 19, 29, 39, 43, 51–52, 60–63, 65, 68, 71–76, 81–82, 85, 94, 96, 98, 105–106, 108–109, 116–118, 131–132, 143, *147*, 152, 158, 170, 175–176, 181–182, 187–189, 194, 203, *206, 208*

secondary school 6, 26 ,28, 34, 39, 42–43, 51, 57, 59–60, 70, 74, 81, 83–87, 89–92, 94–96, *99–100*, 106, 111, 115, 117, 120, 124–125, 130–131, 135, 137, 139–140, 147–148, 151, 154–155, 172, 175, 180, 195, 201–202, *206, 209*

security 4, 32–33, 35, 66

shared financing 14, 24, 31, 39, 63–64

shared tax (es) 8–10, 66–67, 84, 106, 176, 183–184, 190, *206–207*

size 5–6, 11, 18, 23, 29–30, 34, 40–43, 45, 48, 61, 66–68, 82, 87, 105–106, 110–111, 115, 123, 125–127, 166–*167*, 179, 181, 185, 189, 191, 194–195, 197–202, *208–209, 212*

Slovakia 17–18

special needs 13, 41, 45, 51, 68, 82, 85–87, 89–91, 93, 141, 194

special state concern 94, *99, 101*

spending 14, 19, 23, 30–31, 34–36, 43–48, 51, 63–66, 72, 109, 114, 118, 120, 127, 129, 141, 177, 193, 196–197, 200–202, 209, *214, 216, 218*

staff 4–5, 8, 11, 14, *20*, 29, 35–36, 52, 60–62, 64–66, 68–69, 72, 85, 97, 114–117, 132, 144, 175, 178, 181–182, 185–186, 190, 193, 200, 203, *208*

standard viii, 3, 6. 8–9, 14, 16, 24, 29, 34, 38, 40, 45–46, 52–55, 60, 64–65, 67–68, 74, 76, 81, 84–85, 90–91, 94, 96–97, 113, 115, 119, 134, 139, 141–142, 144, 146, 151, 154, 157–158, 168, 176–177, 179–181, 185, 188–191, 193–194, 203, 208

state budget 9–10, *20*, 60, 63–64, 85–86, 91, 97, *99–100*, 105, 109, 111–113, *147*, 152, 158–160, *167*, 170, 182–183, 186, 189–191, 194, 197

state budget law 8, 29, 67, 91,

strategy viii, 13, 24, 28–29, 37, 46, 68, 75, 77, 109, 132, 136–137, 143, 145–*146*, 151, 153, 163, 168, 175, 177–178, 180, 187, 199, 202–203, *205, 207*

student numbers 10, 16, 18, 27,36, 38, 42–44, *47*, 51, 55, 57–60, 62, 65–66, 87, 92, 94–96, 98, *100*, 105, 110, 118, 120–125, 131, 133, 140–141, 161–164, *167*, 175, 177, 179–180, 189, 193–195, *206*

student–teacher ratio (STR) 17–18, 25, 36, 41–44, 51, 56–59, 94–95, 105, 110–111, 197–199

subsidy 8, 15, 40, 52, 61, 66–67, 71, 91, 94, *99–100*, 140, 172

supervision 9, 24, 45, 71, 168

surplus (es) 13, 19, 68, 72, 85

T

TACIS 154

teachers' unions 13, 85, 96

textbook (s) 8, *20*, 38, 52, 67, *147*, 176, 178, 193, 196, *205*

town(s) 6, 9, 40, 81–85, 87, 91, 94, 96–98, *100*, 195

trade union 54, 81, 83, 203

training 4, 9, 11, 23–26, 28, 30–31, 33, 45, *47*, 51–52, 54–56, 58–62, 65, 69–71, 76, 81, 83, 86–87, 89, 92, 98, 106, 117, 138, 145, *147*, 153–154, 176, 182, 190, 193, *205*

transfer 5–6, 10, 14, 16, 19, 24, 28–30, 32, 35, 37, 39–41, 43–45, 52–53, 61, 67, 71, 76, 83–84, 94, 106, 114, 119, 131–134, 136, 143, 152, 158–160, 167, 170, 179, 182, 186,

transfer pool 35, 39, 41

transparency 25, 45, *167*, 192, 194, 202

transportation 8–9, 11, 37, 42, 89–91, 107, 114–115, 118–119, 130, 132–133, 136, 139, 143, *146, 148*, 157, 161, 190

treasury ix, 36, 51, 109, 117, 144, 169

U

underfunding 8, 10, 12–13, 15, *20*, 36, 44, 66, 160, 196–197, 203

understaffing 97

UNICEF 152–153

United States 3, 14, *20*

Urban 18, 37, 41–42, 44, 72–74, 106, 125, 127, 158, 161, 177, 179, 188, 191, *207*

USAID vii–ix, *47, 76*, 135, *145*, 148

V

value added tax (VAT) 130, 170, 186, 190, 195, *207*

vertical 15–16

vocation 59

vocational 7, 23, 26–28, 30–31, 33–34, 51, 56, 58–60, 62, 65, 76, 83, 88, 92, 110–111, 135, 141, 146, *148*, 151, 154–156, 159, 175–176, 179–180, 182, 185, 188, 200–201, 205, 209–219

voucher 8, 16, 52, 65, 67–68, 71

W

wage (s) policy 46

war 18, 81, 94, 105, *146*

waste 7, 37

water 7, 37, 118, *147*, 165, 183

World Bank vii, ix, 13, *19–20*, 27, *46–47, 145*, 152–153, 176, 178, 180, 187, 196, 198–199, *204–208*

How to properly finance public schools has long been a top concern of national and local governments. In the last two decades in South Eastern Europe, government entities have often competed for and shared funds within a legislative miasma of conflicting responsibilities and unfunded mandates, while also attempting larger reforms to decentralize government. At the core of this conflict are perplexing problems for decision-makers. How to ensure accountability and efficiency in managing schools and in the use of funds targeted for education? How to simultaneously give schools the freedom to choose the best strategies in terms of quality and equality while also facing geographic, economic, and financial barriers? Inevitably, the answer is a balancing act of compromises and short-term solutions, not always conducive to transparency or optimization, and not even ensuring consensus and stability.

This six-country anthology compares reforms and experiences in Albania, Bulgaria, Croatia, Macedonia, Moldova, and Romania. An introduction by Casandra Bischoff reviews what changes have happened across South Eastern Europe and points to some changes that may offer more hope for the future of the education sector.

Compiled by a team of experts from across the region, *Public Money for Public Schools* goes on to discuss the complex makeup of local government and school budgets, the distribution of funds from national to local levels, the dilemmas of motivating an aging and unhappy teacher workforce, and the practical options for local governments and their constituents in managing and funding their schools. It also takes a broader look at the education system and government entities concerned with reform, decentralization, equality, and the overall national budget.

Local Government
and Public Service
Reform Initiative

OPEN SOCIETY INSTITUTE

ISBN 978 963 9719 13 2